THE ADMINISTRATION BUDGET SUBMISSION AND BUDGET PROPOSALS

HEARING

BEFORE THE

SUBCOMMITTEE ON
HOUSING AND MEMORIAL AFFAIRS

OF THE

COMMITTEE ON VETERANS AFFAIRS
HOUSE OF REPRESENTATIVES

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THE ADMINISTRATION BUDGET SUBMISSION AND BUDGET PROPOSALS

Thursday, February 9, 1989

Subcommittee on Housing and Memorial Affairs,
Committee on Veterans Affairs,
Washington, D.C.

The subcommittee met at 1:10 p.m. in room 334 of the Cannon House Building, the Honorable Harley O. Staggers, Jr., chairman of the subcommittee, presiding.

Present: Representatives Staggers, Jones, Rowland of Georgia, Harris, Payne and Burton.

OPENING STATEMENT OF CHAIRMAN STAGGERS

Mr. Staggers. The subcommittee will be in order. Before I begin, I want to take the opportunity to extend a very special welcome to our new Members. This morning's hearing marks the beginning of a very active year and I look forward to working with all the Members.

I'd also like to say to my colleagues that Dan Burton and I look forward to working with them. I know we share a lot of interests.

I also welcome all of our witnesses. I think we share a similar goal of keeping our programs viable and their input will be invaluable in that regard.

Today, we are here to focus on the administration's budget submission and legislative proposals which fall under the jurisdiction of this subcommittee.

Many of these proposals are not new. They have been previously projected by the Congress but, for some reason, continue to be presented time and time again. For 5 years now, the administration has recommended increasing the VA user fee. Proposals have varied from 1 to 5 percent, from 1 to 2.5 percent, 1 to 3.8 percent over a 4-year period, and now 1 to 3.8 percent.

To my knowledge, none of these proposals have been formulated in a way to accurately assess the cost of the program, or take into consideration its long-term effects.

Rather, these proposals were geared strictly to reducing 1 year's budget request. In the committee's full budget hearings only two days ago I asked whether reduced program participation resulting from a 280-percent increase in the user fee would produce less revenue than keeping the 1-percent funding fee in effect.

I was advised that the VA methodology did not anticipate a significant reduction in the use of the program. Frankly, that is difficult to believe. And I intend to follow this question up with some of our other witnesses.

The credit reform proposal would set aside $833 million in a separate account at Treasury for guaranteed loans made in fiscal year 1990. Hopefully, someone this afternoon can tell me exactly how they envision this; since very few loans go to foreclosure the first year, does this mean that $833 million will be sitting around in an account at Treasury doing nothing?

We know how difficult it has been for OMB to allow VA to send up its much needed supplementals. The VA will probably have to make some quick-fix decisions based on today's financial needs rather than on long-term prudent management. Such has been the experience in the past, and this has certainly contributed to some of the solvency problems currently being experienced by the Loan Guaranty Revolving Fund.

The administration would also request that the Congress restructure the law pertaining to the loan asset sales. Historically, the VA has received excellent returns by selling its loan assets with recourse. On many occasions, returns exceeded the face value of the portfolio.

As part of the administration's credit reform package, the VA has been required to sell its loan assets without recourse. This resulted in their receiving approximately 55 cents on the dollar on the day of sale.

We estimate that the VA would have received an additional $180 million during their last two loan asset sales had they sold in their traditional manner with recourse.

The proposals to establish negotiated interest rates isn't new. In the past, veterans' organizations have testified against this proposal, projecting that it could result in higher rates paid by veterans. The proposal could also increase VA claim costs and adversely affect the Loan Guaranty Revolving Fund. Since it is expected that negotiated interest rates would be higher than the current VA established maximum rates, the VA's claim costs would increase, resulting in increased outlays from the Loan Guaranty Revolving Fund.

Because the Government assumes most of the risk on the guaranteed mortgage, it has an obligation to taxpayers to moderate interest rates to the maximum extent possible to minimize the financial exposure.

I'm asking for comments on the changing VA regulations to include the cost of Government borrowing in the determination of whether to acquire or not acquire foreclosed property.

At the time Congress had enacted Public Law 98-369, relating to the VA's property acquisition formula, we specifically stated in the conference report that the Congress did not intend to change the VA's current policy of not considering interest costs that the United States would incur if it were necessary for the Government to borrow the funds for a particular acquisition.

I find it particularly ironic that when we passed legislation over a year ago, which would grant relief to mortgage bankers in terms of the VA's no-bid formula, they have not yet written the regulations. Yet, the VA has no qualms about proposing something which would probably result in mortgage bankers making fewer loans to veterans. And this is nothing but another backdoor approach to killing the program.

The budget not only proposes to reduce loan guaranty personnel by 45, but would cut out another 177 FTEE and DVB at such time as they are put in the new computer system.

From 1978–1988, employment levels have decreased by 370 people; yet, workload has increased significantly. The number of guaranty claims filed rose from 14,388 to 50,285, an increase of 278 percent.

Acquired properties on hand have risen by 84 percent and defaults have increased by 21 percent. If these additional cuts are realized, it would be difficult for the VA to maintain quality and timeliness standards, which have already deteriorated.

In addition, this action would preclude the VA from attaining the goals of increased defaulted loan servicing. Higher foreclosure levels continue to be a major challenge.

The General Accounting Office has repeatedly testified before the committee that intensive and timely servicing of defaults reduces ultimate foreclosures and subsequent claims and property management expenses.

The FTEE request for DMA workloads is also too low. FTEE rates have increased by 2.8 percent since 1983. But, interment and grave site maintenance workloads have increased 35.4 percent and 19.1 percent, respectively.

All of the issues I've outlined are significant. That is why I felt so strongly about scheduling a separate hearing on the budget. I did not believe we could adequately cover all of these issues at the full committee hearing.

I look forward to receiving everybody's testimony. And if my colleague, Mr. Burton, would have any comments, this would be an appropriate time.

OPENING STATEMENT OF HON. DAN BURTON

Mr. Burton. Mr. Chairman, let me begin by welcoming you to this subcommittee by saying that I look forward to working with you.

Harley, I've known you for a long time. You're a dedicated Congressman and I know we'll work well together. You're not as good-looking as your predecessor, but we'll get along.

I enjoyed working with Miss Kaptur. We were able to work well together on some very important issues, and I'm sure that you and I will continue in that direction.

I'll keep my remarks brief because we all want to hear from our distinguished witnesses.

Any veterans' budget must be treated with great care and respect because our veterans deserve the very best we can give them. We, in Congress, have to work hand-in-hand with our colleagues in the administration to assure that those who sacrificed on our behalf get quality health care and all deserved benefits.

We're here specifically this afternoon to review the administration's budget for veterans' housing and cemetery needs. Our foremost goal should be the solvency and financial health of these important programs; particularly the VA Mortgage Loan Guaranty

Program is of continued concern to us. We look forward to hearing about and studying the administration's proposals in this regard.

I would just like to point out that I share my colleagues' concern over plans to increase the user fee. The implications of such an increase most certainly need to be considered carefully.

I look forward to hearing from our distinguished panel members.

Mr. Chairman, I look forward to working with you.

Thank you.

Mr. STAGGERS. Are there any other Members that would like to make an opening statement?

[No response.]

Mr. STAGGERS. If not, our first witness will be the Veterans' Administration, Mr. Vogel, Chief Benefits Director; and Mr. Arthur Hamerschlag, Deputy Director of the National Cemetery System; accompanied by Mr. Grady Horton, Deputy Chief Benefits Director for Program Management; and Mr. Keith Pedigo, Director of Loan Guaranty Service.

We look forward to your testimony. We will be going by the time. It will be 10 minutes. You know the light system well, I'm sure.

STATEMENT OF R.J. VOGEL, CHIEF BENEFITS DIRECTOR, DEPARTMENT OF VETERANS' AFFAIRS; AND ARTHUR S. HAMERSCHLAG, DEPUTY DIRECTOR, NATIONAL CEMETERY SYSTEM; ACCOMPANIED BY GRADY HORTON, DEPUTY CHIEF BENEFITS DIRECTOR FOR PROGRAM MANAGEMENT; AND KEITH PEDIGO, DIRECTOR, LOAN GUARANTY SERVICE

Mr. VOGEL. I'd like to make a brief summary statement and ask that my full statement be included in the record.

Mr. STAGGERS. Without objection, your statement will be included in the record.

Mr. VOGEL. Mr. Chairman, I'm pleased to appear before you and the Members of the subcommittee to discuss the Veterans' Administration fiscal year 1990 budget request. This testimony does not reflect any budget revisions made by the Bush administration.

The 1990 request for Loan Guaranty anticipates budget authority of $1,363,800,000, consisting of appropriations of $453 million and $910,800,000 in proceeds from recourse sales.

We anticipate acquiring 20,500 properties, processing about 46,000 claims and guaranteeing nearly 180,000 loans.

The Department of Veterans Benefits' requests to support the Loan Guaranty Program are $68.6 million and 2,030 FTEE, which is a $3.2 million increase in budget authority and a decrease of 45 in the employment level. Included is $3.8 million for the first year of the 2-year Loan Guaranty Property Management Pilot Program. The program will evaluate the feasibility of accomplishing the acquisition, management and resale of 10 percent of the agency's property inventory by utilizing a private sector contractor.

Legislation would be necessary to fund the Loan Production System from the Loan Guaranty Revolving Fund appropriation rather than the General Operating Expenses appropriation. The Loan Production System is designed to automate loan guaranty work processes which are now largely manual. In addition, it will save the Veterans Benefits Administration 70 FTEE in 1990. The initiative would also produce savings in the Loan Guaranty Revolving Fund of about $21.5 million in 1990.

The Reagan budget's 1990 request for the Burial Benefits and Miscellaneous Assistance appropriation anticipates budget authority of $152,606,000. The budget reflects legislation to change the eligibility requirement for the burial plot allowance to be consistent with the eligibility requirement for the basic burial allowance, with the exception that State cemeteries will continue to collect plot allowances for all veterans who are buried there. The savings from this proposal are estimated to be $36.5 million in 1990.

Mr. Chairman, you invited testimony on certain specific items that I'd like to discuss at this time.

The Reagan budget proposes to increase and make permanent the VA loan fee. The loan fee is collected at the time of loan closing and may be financed with a loan. The proceeds are deposited into the Loan Guaranty Revolving Fund. Under the Reagan administration's proposal, on loans closed on or after October 1, 1989, the fee would be increased to 3.8 percent and the loan fee would be made permanent. Vendee loan purchasers would be subject to the same fee.

The VA Home Loan Program has been, and continues to be, of great importance to present and former members of the Nation's Armed Forces. We're aware of the cost to taxpayers in operating the program and in paying claims on loans resulting in foreclosure. Since the Loan Guaranty Program provides a unique benefit for a select group of beneficiaries, we believe that the group should bear a portion of the cost of providing the benefit through a modest one-time fee.

The Reagan budget also proposed negotiated interest rates on VA-guaranteed loans. This would be accomplished by repealing the administration's authority to set maximum interest rates, which veterans pay on loans guaranteed by VA. Although the VA makes every effort to reflect the loan market in setting interest rates on guaranteed loans, it is not always possible for the rates to keep exact pace with money market demands. When the cost is not adequately reflected, lenders charge points. We have interpreted the law as not permitting veterans to pay points. If the veteran pays this amount, he or she would, in effect, be paying an interest rate above the permitted maximum. This change would encourage sellers to sell with VA financing and charge veterans the same price as non-veterans for the same home.

The Reagan administration reproposed reform of Federal credit programs. The VA Home Loan Program plays a significant role in the extension of Federal credit to home buyers. The proposal requires that Congress appropriate the total dollar value of subsidies on new GI loans and vendee accounts each fiscal year. We would then use these appropriations to pay the subsidy costs into a new central fund handled by Treasury. The fund would receive appropriations and funding fees and would be responsible for future costs in connection with the program.

The budget also proposed to revise the law related to the sale of vendee loans by the Department of Veterans Affairs; credit management policies favor selling loan assets without recourse. We began selling loans without recourse in fiscal year 1988. To date, two sales have been held. The results of the sales has demonstrated that selling loans without recourse is a viable option.

As the law now stands, until October 1, we will be required to make complex projections of the anticipated yields and costs of recourse and non-recourse sales of each block of loans to be offered for sale. Based on such projections, it will be determined whether or not it's in the best interests of the effective functioning of the Loan Guaranty Program to sell, with or without recourse.

After October, the VA would be prohibited from selling loans without recourse unless they could be sold at par. That would have the effect of essentially precluding the sale of loans without recourse. The present law imposes complex and costly administrative requirements on VA without tangible benefits. Further, the effective prohibition of selling without recourse after October is an unnecessary and unwarranted interference with the administrative flexibility required by the Secretary to dispose of loan assets. The Reagan budget proposed to grant the VA the flexibility to sell loans in a cost-effective manner either with or without recourse.

The FY 1990 budget requests 2,033 FTEE for the Loan Guaranty Program, a decrease of about 2.2 percent. We believe we'll be able to maintain quality and timeliness at an acceptable level with that amount of personnel resources.

The Deficit Reduction Act of 1984 required the VA to take into account all anticipated costs for acquisition, management, and disposition when determining whether or not a property is to be acquired. The VA considers all estimated cash expenses for these items to determine the net value of the property, and will acquire a property if its net value is greater than the amount owing on the loan, minus the amount of the guaranty. The cost of Government borrowing incurred when holding acquired properties in inventory before resale should be taken into account in the net value of the property to the VA. We're in the process of including this factor in the determination of net property value. This would reduce the number of properties we acquire by about 10 percent. Another effect of the change would be to increase the claim payable under the loan guaranty in many cases. The proposal provides that the increase in the claim will not be charged to the veteran.

Congress recognized that Federal burial system programs had expanded well beyond their original purposes and benefits were paid on behalf of persons who possessed ample resources to pay such expenses. Some years ago, a public law was enacted to restrict eligibility for burial allowance to veterans entitled to VA benefits at the time of their deaths. A subsequent amendment further solidified the concept that burial allowances were to be directed primarily to those veterans who suffered diminished capacity by reason of active service and those who demonstrated financial need. The Reagan budget proposed the standardization of eligibility for the burial plot allowance as the final step in this process. While the impact on any affected survivors would be only to bear another $150 of the burial expenses, the monetary savings to the Government would be approximately $150 million for a 4-year period.

Mr. Chairman, that concludes my summary statement. I'd be pleased to answer any questions you or other Members of the subcommittee may have.

[The prepared statement of Mr. Vogel appears on p. 43.]

Mr. STAGGERS. Mr. Hamerschlag, do you want to go ahead with your testimony before the questions?

STATEMENT OF ARTHUR S. HAMERSCHLAG, DEPUTY DIRECTOR, NATIONAL CEMETERY SYSTEM

Mr. HAMERSCHLAG. It's a pleasure to be here this afternoon, Mr. Chairman, to present testimony concerning the fiscal year 1990 budget for the National Cemetery System. With your permission, I'd like to submit my statement for the record and present a brief summary.

Mr. STAGGERS. Without objection, your testimony will be entered into the record.

Mr. HAMERSCHLAG. Thank you.

The National Cemetery System has a threefold mission: to operate and maintain our national cemeteries; mark graves of eligible veterans in national, State and private cemeteries; and to administer a grant program to aid in establishing, expanding or improving the State Veterans' Cemeteries.

The fiscal year 1990 General Operating Expenses request is for $48.8 million and 1,238 fulltime equivalent employment or FTEE. This is an increase of $3.2 million, and 35 FTEE over the currently-projected fiscal year 1989 level.

Of the 35 FTEE increase, 13 are for increased workload in existing cemeteries; eight are for staffing the new National Memorial Cemetery of Arizona, four are for activation of the San Joaquin Valley National Cemetery; and three are for ADP support personnel at the National Cemetery area offices. The balance of seven are for the transfer of the Presidential Memorial Certificate Program to the National Cemetery System from the Veterans Benefits Administration.

Budget authority in the amount of $4.4 million is requested for Grants for State Veterans' Cemeteries. This level will provide ample resources to meet demand from the States for grant funding in 1990.

Our budget request also includes $5 million for minor construction projects and $10.5 million for major construction projects. Major projects include gravesite development at Jefferson Barracks, Missouri and Fort Snelling, Minnesota; funding for Facility Development Plans and Capital Facilities Studies at selected cemeteries; as well as planning or design funds for gravesite development projects at Fort Sam Houston, Texas; Riverside, California; and Fort Logan, Colorado.

The National Memorial Cemetery of Arizona is to become a part of the National Cemetery System this year. A transfer agreement has been reached with the State of Arizona, and the National Cemetery System will assume operational responsibility of that cemetery on April 1, 1989.

Progress also continues on the construction of the new San Joaquin Valley National Cemetery in northern California.

Consistent with Congressional guidance, environmental impact statements, or EISs, are underway for national cemeteries in Albany, Cleveland, Chicago and Seattle-Tacoma. Award of the EIS contract is expected by the end of April, with all four EISs completed by September 1990. This budget submission does not include funding for the planning, design or construction of these cemeteries. After a thorough policy review, within the VA and the administration, it was decided that the regional concept would remain the policy of the National Cemetery System. As you know, this policy calls for one large open national cemetery in each of the 10 standard Federal regions.

Public Law 100-322 authorized the funding of graveliners from the Compensation and Pensions. To date, we have expanded this program to three additional national cemeteries: Houston, Fort Sam Houston and Fort Snelling, for a total of seven cemeteries where the Government is providing graveliners at Government expense.

The National Cemetery System annual workload is estimated to increase in FY 1990 to 60,500 interments, 1.8 million gravesites maintained and 290,100 headstone and marker applications processed. The National Cemetery System workload has grown steadily in recent years. Between fiscal years 1983 and 1990, annual interments have increased 35 percent, gravesites maintained have increased 20 percent, while our wage grade employment has increased only 4 percent.

In fiscal year 1989, the National Cemetery System's budget is being reduced $1.7 million to provide additional payroll funding to the Veterans Benefits Administration. This reprogramming will have to be absorbed by reductions in equipment purchases and maintenance projects.

In conclusion, the National Cemetery System is constantly striving to improve and refine its operations. We have been challenged in recent years to increase our efficiency and our productivity, and I think we have met the challenge.

Our mission is an important one. National cemeteries, by law, are considered national shrines. Their beauty and serenity serve the living as well as the deceased. We are all dedicated to, and take great pride in, carrying out our mission.

Mr. Chairman, I would like to thank you for the opportunity to testify, and I'll be happy to answer any questions you may have.

[The prepared statement of Mr. Hamerschlag appears on p. 55.]

Mr. STAGGERS. Thank you.

The first question, let me address to Mr. Vogel:

In your testimony, the first paragraph, you said:

"This testimony does not reflect any budget revisions made by the Bush administration."

Any guesses?

[Laughter.]

Mr. VOGEL. I'm sorry to say, Mr. Chairman, I don't have any guesses. The Secretary-designate has indicated, as you know, a desire to meet with the President. He's discussed the VA budget situation with Director Darman of OMB. But the outcome of that is not known to me.

Mr. STAGGERS. Let me ask you why did you change your regulations to include the cost of Government borrowing and determination of whether to acquire or not acquire foreclosed property? The cost of borrowing.

Mr. VOGEL. I beg your pardon, sir?

Mr. STAGGERS. Why did you include the cost of borrowing?

Mr. VOGEL. The practice of the administration is to reflect in any Government lending program, guaranteed or otherwise, the cost of the Government's involvement.

(Subsequently, the Department of Veterans Affairs submitted the following additional comment:)

The cost of Government borrowing is a bona fide economic cost incurred by the Government for holding acquired properties in inventory before resale and should be taken into consideration when the net value of a property to the Government is determined.

Mr. STAGGERS. But I would note that, in a survey of mortgage bankers, 70 percent indicated they would be less likely to make VA loans.

So wouldn't you think that this would decrease lender participation in your program, and could that be construed as a backdoor approach to making the Home Loan Guaranty Program less effective?

Mr. VOGEL. We would certainly hope that these very important participants in providing housing to veterans would stay with us. We do believe it has been a valuable benefit since the closing days of the Second World War.

I've discussed with several mortgage bankers and their national association the potential impact on their mortgage banking participation. It is a matter of concern to us.

Mr. STAGGERS. So you were aware of the survey of the mortgage bankers?

Mr. VOGEL. Yes, I am.

Mr. STAGGERS. In view of the high cost of foreclosures and property acquisitions experienced in fiscal year 1988, has there been a shift in resources allocated to those functions?

Mr. VOGEL. Yes. We've shifted, to the extent we can, additional resources into the loan servicing and property management functions. We are diverting personnel into both servicing and property management to increase sales and get the maximum price we can. But, more importantly, through our effort to provide supplemental servicing, we believe that we will help veteran borrowers retain their homes.

Mr. STAGGERS. Isn't it true, and I want to shift gears a little bit, but isn't it true that if you had sold your loans with recourse during the last two sales, you would have received an additional $180 million up front?

I notice in your testimony you told us how much you did. But wouldn't it be true, if they had been sold with recourse, that would have meant $180 million up front?

Mr. VOGEL. We submitted two reports, Mr. Chairman, to Congress on the results of those sales and pointed out that, having done that, sold on a with recourse basis, the yield would have been higher. It was interesting to note that we recently saw the CBO's estimate of what that experience was. The figure was $22 million on those two sales which we would have had if we sold them on a with recourse basis. The without recourse sale is a function of the credit management initiative of the administration. Mr. Pedigo and the staff worked hard with the Financial Adviser to make that as positive as we possibly could. It was a difficult endeavor.

Mr. STAGGERS. But you would have, with recourse received more?

Mr. VOGEL. In both reports to the Congress, we indicated there would have been a marginally higher yield and CBO has now come in and said the yield wouldn't have been marginal, it would have been significantly more. It was about $22 million more.

Mr. STAGGERS. At the time sale?

Mr. VOGEL. Yes.

Mr. STAGGERS. Let me switch to Mr. Hamerschlag, if I could.

You indicated that 13 to 15 additional FTEE in your request would be to support increased workload in the National Cemeteries.

Do you have a methodology for determining employment levels relating to workload?

Mr. HAMERSCHLAG. Yes, Mr. Chairman, we do. We are able to very accurately project what our workload will be. We measure that workload in three parts: one, would be the number of interments each year; second, the number of gravesites maintained; and, third would be the number of developed acres maintained.

We do have a methodology based on those workload projections and we can, I think, very accurately project what our employment needs would be.

Mr. STAGGERS. Can you tell me what is that level according to those three criteria that you just mentioned?

Mr. HAMERSCHLAG. If we applied our methodology, as it is, it would call for an increase of about 51 positions for those workload areas in the National Cemetery System, from FY 1989 to FY 1990.

Mr. STAGGERS. Do you personally believe this is enough employees, since you state that the workload has gone up 35 percent, and employment by 4 percent?

Mr. HAMERSCHLAG. As I said in my testimony, we have been challenged, given those workload increases and the employment we have. I think we've met the challenge very well up to this point. I would point out we are getting some workload increases this year and we're hoping to get those in the future.

Mr. STAGGERS. That doesn't really answer my question. I know that you were challenged. We all have challenges.

Do you think you can do it? Or should we be looking to give you more help to meet that challenge?

Mr. HAMERSCHLAG. It's been very difficult for us to keep the cemeteries maintained to the standard we would like. I think, if we were given additional employment, we could use it well. But, I think it's probably true of most veterans' programs.

Mr. STAGGERS. With respect to the State Cemetery Program, your budget calls for $4.4 million to support that program.

Do you have applications from the States to support that amount?

Mr. HAMERSCHLAG. No, sir, not at this time. In FY 1989, we were appropriated $9 million. That money is available to us for 3 years. We do have either pre-applications or firm indications from the States, who have indicated that that $9 million will be used. We don't have anything in hand for that $4.4 million, but it will be on hand for 3 years to help us meet any additional applications that would come in. I think that $4.4 million is an ample amount of money to take care of anything that would come in in that period of time.

Mr. STAGGERS. Gentlemen, I've gone over my time. And I hope you don't follow the Chairman's example. I do have some other questions, but I'll submit those for the record.

(See p. 118.)

Mr. STAGGERS. We will take the Members as they came in.

Mr. Harris.

Mr. HARRIS. Thank you, Mr. Chairman.

Mr. Vogel, given the rejection last year of this credit reform package— and maybe the year before that—why does your budget resubmit the same idea?

Mr. VOGEL. Mr. Harris, it reflects a continued management philosophy of the administration, the Reagan administration. In large measure, I think spearheaded by the Deputy Director of OMB, Mr. Wright, to generate credit reform policies in Government to make them more in keeping with the private sector, and to reflect fairly the cost of Government involvement. The fact that you see those repeatedly, if nothing else, shows a certain resolve on the part of the administration to come forth year after year. We're tenacious.

Mr. HARRIS. Let me ask you this. This increase in user fees or a tax from 1 to 3.8 percent, as I understand the numbers, would increase the cost to a veteran if he had an average VA loan in the amount of $74,200 from $742 to $2,820. That's a pretty good increase.

Mr. VOGEL. Yes, sir.

Mr. HARRIS. Of course, tax. I'm not advocating taxes either, don't misunderstand me, but that sounds like a duck to me.

[Laughter.]

Mr. VOGEL. Our average loan, Mr. Harris, in the last year was nearly $78,000. The 3.8-percent funding fee would increase the monthly mortgage payment $27 a month. That is going from no fee to a 3.8-percent fee. I didn't make any calculations on the fees you offered, but over the life of a 30-year mortgage, in simple mathematics, it is about a $2,800 charge.

Mr. HARRIS. $2,820 is what I got.

The part of the budget that you're recommending to us, would it be fair to say that this would probably be a reduction over last year for your part of it?

Mr. VOGEL. The appropriated amount? The amount requested in appropriation is indeed less than last year's.

Mr. HARRIS. And the amount requested for the cemetery portion shows an increase?

Mr. HAMERSCHLAG. That's correct.

Mr. HARRIS. I don't know if that's telling us anything or not. What is the ratio between number of defaults and the number of employees served nationwide? Do you have that figure?

Mr. VOGEL. I think it's widely-accepted in conventional financing as well as in Government-guaranteed financing programs that servicing loans has a payback, keeping them current or refunding them or re-amortizing loans. The VA has supplemental servicing after the holder has serviced the loan. We have a pilot project going on in Houston, which, as you know, Mr. Harris, presents a significant challenge with defaults and foreclosures. Early indicators are that increasing personnel in the servicing area has resulted in more cures on loans; the defaults pending are down by 13 percent; the number of properties acquired is down by about 33 percent. The best thing, of course, is that the claims received are down by 26 percent in a comparatively short period of time, from late summer to date. The long and the short of it is that we believe that loan servicing pays and we're endeavoring to get our resources into that, being sensitive to the demands on loan guaranty and the revolving fund.

Mr. HARRIS. I appreciate that, but I'm not sure you answered my question. I wanted to know the ratio between the number of problems and the number of employees servicing loans nationwide.

Mr. VOGEL. I'll ask Mr. Pedigo to try to answer that.

Mr. PEDIGO. Mr. Harris, we have approximately 600 employees throughout the country who are involved, either directly or indirectly, in the servicing of defaulted loans. We have about 138,000 loans that are currently in default out of a total of about 3,947,000 loans.

Mr. HARRIS. And the ratio between the number of properties in custody and the number of employees nationwide?

Mr. PEDIGO. We had as of the end of January, 20,166 properties in our inventory, and between 500–600 employees involved in managing and disposing of the properties.

Mr. HARRIS. All right. For Houston, Texas, that ratio may be a little bit different.

Is that correct?

Mr. PEDIGO. The ratio does vary from office to office.

Mr. HARRIS. What about Houston, Texas?

Mr. PEDIGO. In Houston, we have around 4,000 properties and I believe about 45 to 50 personnel in the property management division.

Mr. HARRIS. And Denver, Colorado?

Mr. PEDIGO. Denver has 2,800 properties in inventory and I'm not sure how many employees they have in the property management section, but I believe it's around 25.

Mr. HARRIS. If any inequities exist, what justification would you offer for that?

Mr. PEDIGO. We try to apportion the personnel to our regional offices according to their need. In the last several years, there's been an environment of budgetary constraints, so we haven't always been able to put the personnel where they're needed when they're needed. But we have managed to give both the Houston office and the Denver office more personnel within the last 2 or 3 years to address the property management and servicing workloads that they have encountered.

Mr. HARRIS. Mr. Chairman, I see my time is up. I'll yield. I may come back with other questions.

Thank you.

Mr. STAGGERS. Before we get to Mr. Payne, I would inform the subcommittee that we are interested in going down to Houston, if anyone would want to join us.

Mr. JONES. Correct me, but I think Mr. Payne was here.

Mr. PAYNE. I think Ben was here.

Mr. STAGGERS. Mr. Jones, it's your turn.

Mr. JONES. Thank you, Mr. Chairman and Mr. Vogel.

You touched on the so-called credit reform. I wonder if you could expand on that just a little bit, about how that will work. Is the money just going to sit there in the Treasury? And if so, how are we going to take care of it?

You're talking about $833 million. If that's the case, how are we going to take care of funding for property acquisitions?

Mr. VOGEL. Mr. Jones, I'm going to pass that over to Mr. Pedigo, if I might.

Mr. PEDIGO. Mr. Jones, the general framework is about all that's in place with respect to credit reform. So I'm not going to be able to go into a great deal of detail. However, based on my understanding of how the Office of Management and Budget made this proposal, the monies that are appropriated incident to credit reform go into a Treasury revolving fund. And the monies in that fund would be used to pay for claims and acquisitions on loans that go into default subsequent to implementation of this proposal. So the money would not sit there, but it would be used to defray program expenses.

Mr. JONES. The average loss per property sold since 1987 actually has increased over 20 percent since 1987.

I wonder to what you attribute such an increase, and do you think this trend is likely to continue in 1989?

Mr. VOGEL. The principal reason is that we sold at what the market prices were. The large bulk of our properties sold, as you might imagine, are in the energy-dependent parts of the Nation—Texas, Colorado, Oklahoma and, to some degree, in California. We have very vigorously pushed our loan guaranty operations in the field to sell properties, to aggressively decrease holding time on properties, and additional costs, including taxes and insurance and property management fees.

Last year, we sold in excess of 40,000 properties. We accelerated sales to the extent that exceeded our previous record high of 34,000.

The needs of the Loan Guaranty Revolving Fund have been so grave and acute that we had to get that infusion of income in there to continue to pay claims.

Whether or not we'll continue, I'm hoping that we've seen the energy-dependent part bottom out. We've seen some signs, some positive signs. I don't like to see that loss per property go up either. We're hoping to turn that around a bit this year, we'll be helped most of course by improving economic conditions and, secondarily, by any shifts we might make as managers in how we manage and dispose of properties that we acquire in foreclosures.

Mr. JONES. Thank you, sir.

Mr. STAGGERS. Would the gentleman yield?

Mr. JONES. Yes.

Mr. STAGGERS. To what extent were auctions involved?

Mr. VOGEL. Mr. Chairman, we haven't had an auction for 8 or 9 months. I guess the last was a small auction in Albuquerque. So, very little, if any, of the properties sold in this last fiscal year were attributable to auctions.

I think Mr. Pedigo says about 4 or 4.5 percent of the properties sold all last year were by auction. We haven't had any for a while. We don't have any plans for any for a long time. But we do think that's a viable method of marketing properties in certain markets.

Mr. STAGGERS. Auctions?

Mr. VOGEL. We do think that can be a last resort means of selling property. We have to be sensitive to the markets. We have no plans to do that now, but we'd like to hold that card in the deck if we ever need to play it.

Mr. STAGGERS. I thank the gentleman for yielding.

Mr. JONES. Mr. Chairman, I have no further questions.

Mr. STAGGERS. Mr. Payne, you're recognized for 5 minutes.

Mr. PAYNE. Thank you, Mr. Chairman.

Mr. Vogel and perhaps Mr. Pedigo, as I have looked through the testimony of all the people who will be testifying today, it seems that the underlying issue is the amount involved in foreclosure of our veterans' loans.

It would be helpful to me, and perhaps others who are new to this subcommittee, if you could comment on the rate of default. Is it an acceptable rate given the market or given the norm, and are we doing enough things to solve the problem after the fact, which is what many of these measures are attempting to do?

Mr. VOGEL. I'd be pleased to offer some comments, and perhaps Mr. Pedigo could add something to it. We think that the defaults and ultimately the foreclosures and claims paid in our program are a reflection of the market in general. We're virtually the only large entity that makes no down payment loans. No down payment loans have a greater risk than those that have down payments made than other types of loans. Over the life of the program, the VA's default rate has been only a little higher than that for the conventional market. I'll pass it on to Mr. Pedigo.

Mr. PEDIGO. Yes, Mr. Payne, since the inception of the program until today, 4.78 percent of the loans we've guaranteed have gone to foreclosure. As Mr. Vogel said, we are a no down payment program. We think that's an excellent track record considering the fact that between 70–80 percent of the veterans over time have not made a down payment. We are very concerned that 4.78 percent have gone to foreclosure over the years. We have engaged in a very active effort to try to help veterans retain their homes through affirmative supplemental service programs. We have within the last 6 months given greater emphasis to the servicing, as is evidenced by the fact that we have a pilot program for loan servicing going into its seventh month in our Houston regional office.

And we hope to prove through this pilot to everybody that servicing is effective, that there is a very definite payback. And if we can do that, we think we can justify getting additional resources to put into the servicing sections of the other regional offices.

Mr. PAYNE. Are you seeing anything that would suggest that the 4.78 percent is changing? Is that increasing?

Mr. PEDIGO. It has gone up. Our experience since 1982 has been unusually adverse as a result of the economic dislocation in the early eighties and then, more recently, the problems in the oil patch. So that figure has been skewed considerably; in the last couple of years, we see a turnaround. The level of notices of intention to foreclose that we're receiving and the number of defaults have gone down. So we think that we're turning the corner, that the foreclosure rate at some point in the near future will level off.

Mr. **Payne**. Mr. Chairman, I have some other questions along that line. But I'd like to turn to something else if I may, and have those questions answered for the record.

The other question I have has to do with some suggestions that would make the program work better for the seller of the home and for the lender. These proposals will be discussed by the National Association of Homebuilders in their testimony, which will appear later. Mr. Perlman, I believe, will give that testimony regarding the use of the adjustable rate mortgage, which is very common now among mortgage companies and is probably the most prevalent mortgage instrument written today. It also has to do with the direct approval of appraisals to speed up the process, which seems to be in all parties' best interests.

Would you comment on both of those suggestions?

Mr. **Vogel**. Yes, I'd be pleased to. It would take legislation to provide for adjustable rate mortgages in a VA loan guaranteed program. There's been a lot of experience gained in conventional lending as well as in Government guarantees and lending programs with respect to ARMs. My thought is that a carefully-constructed adjustable rate mortgage instrument could be a valuable and viable method of veterans financing loans.

FHA has had an ARM for a while. We've watched that, and we've watched the experience of conventional financing. There are some lessons to be learned that could, in fact, be worked into an ARM.

It's a bit embarrassing to say that the regulations that put the lender appraisal review into place are not yet final. We attempted to implement that with the publication of what we call a circular.

After proceeding down that path for a while, the VA's General Counsel said enforceability would require regulations. We then wrote regulations which are going through the clearance process. We expect the regulations to clear the Agency and go to OMB in the near future. I'm embarrassed by that because we asked for that legislation, got that legislation, and it's been a long time coming. It would, in fact, speed up the process by a considerable amount. And we hope OMB releases them soon. I don't think there's any controversy on the matter. And I apologize for some administrative lethargy, but I think it bears saying, Mr. Payne, that, given the origination activity at the present interest rate, we've been rather timely in our own processing and assigning of appraisers. When interest rates went down, we had a lot of refinancing and a lot of pent-up demand was released. And we had a very difficult time keeping up with that.

Mr. **Payne**. You're saying all that is working better and you still are proceeding along the line of direct approval of appraisal, which apparently was your suggestion initially.

Mr. **Vogel**. Yes, sir, we are.

Mr. **Payne**. Thank you, Mr. Chairman.

Mr. **Staggers**. Before recognizing Dr. Rowland, without objection, any Members have additional questions they want the witnesses to answer in writing can submit them later.

Mr. STAGGERS. Dr. Rowland.

Dr. ROWLAND OF GEORGIA. Thank you, Mr. Chairman.

2 or 3 years ago, I refinanced my home here in Washington with a VA loan. By the time I could get the appraiser to come and get his report back, termites had gotten in and it expired. And I had to get another one.

Let me ask you about the turnaround time now. I know it probably varies from area to area but, in general, what is the turnaround time now?

Mr. PEDIGO. Dr. Rowland, the turnaround time now is very fast. In fact, the latest reports we are getting from our field stations indicate that 96 percent of the appraisal requests that we are receiving are being processed within our 20-day time span.

Dr. ROWLAND OF GEORGIA. Let me congratulate you. That's really a change from what it was. I know a lot of people who were trying to refinance at that particular time and they were worked a hardship.

Let me ask you something about this origination fee, or user fee you're advocating raising to 3.8.

When one takes into consideration raising it that much, the points that may have to be paid—two, three, four or five points—the other costs that one incurs in refinancing, what reason do you have to believe that this will not discourage veterans from using the VA mortgage loan plan?

And let me ask you in conjunction with that, too, how much less are the VA rates than commercial rates generally, if any?

Mr. VOGEL. Dr. Rowland, I just have to believe that a 3.8-percent funding fee, notwithstanding the no down payment provision provided in the VA Loan Guaranty Program, will, in fact, discourage some people from coming to the VA if they can seek other sources of financing, conventional, FHA or other. And a greater concern on that would be that some veterans might be unable to purchase what we think might be a modest home in an area like this. In the Washington area, they may, in fact, be precluded from obtaining the financing to buy houses for themselves.

With respect to the level of interest rates on guaranty loans, it's set by the Administrator. We believe we have been responsive to the mortgage market demands. We've been able to keep up with that pretty well over time. When our rate gets out of sync, we make an adjustment with some alacrity, some rapidity.

There is a proposal in the 1990 budget to allow the interest rate to be negotiated between the veteran homebuyer and the lender, in part, to make up for that time lag, which you would understandably perhaps get in adjusting to what the mortgage market rates are.

Dr. ROWLAND OF GEORGIA. If you do negotiate, what would be the advantage of having a VA loan over a commercial loan if you had to pay this origination fee, which you wouldn't have to pay with a commercial loan?

Mr. VOGEL. Dr. Rowland, I still think that the no down payment feature is still a valuable feature. We think we would still have a significant amount of activity but I don't think there's any question you would have some amount of fall-off.

Dr. Rowland of Georgia. What is the average loan that is made?

Mr. Vogel. On a national basis, the avearage loan is about $78,000.

Dr. Rowland of Georgia. The VA has a guaranty now of about what? A hundred and thirty?

Mr. Pedigo. The guaranty goes up to $36,000. The secondary market will generally make a no down payment VA loan for up to $144,000.

Dr. Rowland of Georgia. $144,000. How many loans do you have about, approximately, that are at that amount or exceed that amount?

Mr. Vogel. Anything we would have at that amount or greater would have to be down payment loans. There has to be a certain amount of down payment.

Dr. Rowland of Georgia. That's not the point. If you make a loan for $175,000, you have to pay the difference between the $144,000 and the $175,000.

I was wondering, how many loans do you have that might be in that area? Because you're saying one of the reasons that veterans would be attracted would be no down payment. But, in fact, there would have to be a down payment if you exceeded that amount.

So my question is:

How many loans would you have in that area?

Mr. Pedigo. Dr. Rowland, I can't answer that now. We would need to provide that for the record. But, practically speaking, most VA loans go into Ginnie Mae pools. Ginnie Mae has imposed a $144,000 limit, which means, in addition to placing that limit, they will not even permit loans higher than that, that have down payments to compensate for the overage above the $144,000.

(Subsequently, the Department of Veterans Affairs submitted the following information:)

VA GUARANTEED LOANS AT $144,000 OR HIGHER

(Fiscal Years 1987–1989)

	Total Guranteed	Number of Loans at $144,000	Percent of Total Activity	Loans Greater Than $144,000	Percent of Total Activity
Fiscal Year 1989 [1]	53,878	1,026	1.9	28	0.05
Fiscal Year 1988	232,638	1,404	0.6	49	0.02
Fiscal Year 1987	474,391	....	0.0	40	0.01

[1] As of December 31, 1988

Dr. Rowland of Georgia. My time is up, Mr. Chairman.

Mr. Staggers. Thank you, Dr. Rowland. I do have a couple of follow-up questions to Mr. Payne's question.

With your 4.8, don't you have a monthly or quarterly comparison to FHA?

If you do, could you submit that for the record and specifically give it to Mr. Payne?

Mr. Pedigo. Mr. Chairman, are you talking about comparing our bulk rates?

Yes, we would be happy to submit that for the record.

Mr. STAGGERS. Specifically, could you give that to Mr. Payne also?

Mr. PEDIGO. Yes.

[The survey appears on p. 60.]

(Subsequently, the Department of Veterans Affairs submitted the following information:)

VA and FHA do not maintain delinquency and default data in the same formats. There is, however, a quarterly surveyed prepared by the MBA (Mortgage Bankers Association) which compares delinquency data for VA, FHA, and conventional loans. The attached copy of the most recent available MBA survey covers the fourth quarter of fiscal year 1988 and shows that 6.10 percent of outstanding VA-guaranteed loans were delinquent, as compared to 6.44 percent of outstanding FHA-insured loans at the end of the quarter. It also shows that 1.20 percent of outstanding VA-guaranteed loans were in foreclosure as compared to 1.44 percent of outstanding FHA-insured loans at that time.

We do not have data on FHA loans which is directly comparable to VA's 4.78-percent cumulative liquidation experience. However, in 1984 FHA released a Survivor and Decrement Table based on loans insured from 1957 through 1981. This table indicated 7.39 percent of FHA-insured loans would likely be terminated with a claim paid by FHA (i.e., through liquidation).

Mr. STAGGERS. It seems to me that with the FTEE they could almost pay for themselves. How many loans would someone have to cure to pay for their salary and start saving the Government money?

Specifically, if you could, I'd like to know the average salary for an FTEE. I'd like to know how much the average claim payment is, and how much money did you pay out last year in foreclosures.

Specifically, what I'm looking for is would that added personnel not only pay their way but save money.

Mr. VOGEL. Mr. Chairman, we figure that after a loan servicing activity assists in curing or otherwise avoiding foreclosure on two loans, anything above that is gravy.

They would have paid for themselves with two. Beyond that is a positive program experience. I can give you the specifics as to the numbers you asked for.

Mr. STAGGERS. You can do that for the record. I appreciate that.

(Subsequently, the Department of Veterans Affairs submitted the following information:)

The average salary of Loan Guaranty employees in fiscal year 1989 is estimated to be $25,300. Employees engaged in default servicing usually are GS-7 ($19,493 to $25,343), GS-9 ($23,846 to $31,001) or in some cases GS-11 ($28,852 to $37,510).

The average claim payment in fiscal year 1988 was $13,383. It is projected to be $15,816 in fiscal year 1989 and $17,636 in fiscal year 1990.

In fiscal year 1988, VA paid a total of $2.34 billion in property acquisition and claim payments due to foreclosures of guaranteed loans. In addition, VA paid $14.7 million to acquire defaulted guaranteed loans from lenders in cases where forbearance might allow the veterans to cure the default.

Mr. STAGGERS. One other thing, Mr. Vogel, I'd like to ask.

At the time you proposed restricting the $300 non-service-connected burial allowance, you stated:

"The payment of the plot allowance and the subsequent receipt of debts allowed statistics to be kept on the mortality of veterans."

You now propose restricting the payment to a $150 plot allowance.

What has changed?

Mr. VOGEL. We equalized that to the basic burial allowance; the availability of death statistics by research groups would, in fact, be foregone. They attempted to get that from the VA.

We have been the source of information for the research groups with respect to mortality, cause of death and that sort of thing. It would be foregone with respect to the VA and they'd have to get it from some other source.

I may be able to expand on that a little bit further when we go back and review the testimony. I'll bring it up to date, and I'll be pleased to do that, sir.

Mr. STAGGERS. We appreciate it.

Any other questions of this panel?

[No response.]

Mr. STAGGERS. If not, as I indicated, you may get some other written questions from the Members. Before you get out of here, you know Dan Burton has left.

Without objection, Mr. Wilson would like to ask some questions for the Minority.

Without objection, Mr. Wilson has 5 minutes.

Mr. WILSON. Mr. Vogel, the Secretary-designate sent a letter to Mr. Stump and other Members of the committee in which he talked about a possible $10 supplemental appropriation for the loan guaranty.

In that letter, he said, as I recall, 244 employees were to be hired, which would cost about $7,500,000, and bring in some $55 million.

Did I read that correctly?

Mr. VOGEL. Yes, Mr. Wilson. That was a 1990 number. You are right. We feel very strongly about servicing.

Mr. WILSON. That's a tremendous return on investment.

What's the status of the study that you had commissioned for the loan guaranty?

Mr. VOGEL. We have a contractor, Peat, Marwick, looking at the indemnity proposal that was put forth in this subcommittee last year and passed the full House. They will also look at the program generally with respect to what the funding fee ought to be and some other iterations on it.

We expect that Peat, Marwick study to be in our hands at the end of this month, or early March.

Mr. WILSON. The foreclosure rate on mobile homes is quite high, substantially higher than the other foreclosure rates.

Do those underwriting standards need to be reviewed?

Mr. VOGEL. Veterans seeking to finance manufactured housing now have an obligation to put money down. That's had some deleterious effect just on the volume of those loans. They pretty well acknowledge, I think, that a manufactured house and a mobile home will likely have an appreciation that's very, very small. Indeed, they are more a consumer product. I'm not sure that's a reflection of the underwriting as much as it is the essential nature of financing such a housing unit.

Mr. WILSON. Mr. Chairman, Mr. Burton has some additional questions. I'm sure we can have those put in the record.

Mr. STAGGERS. Without objections, all the questions by the Members will be put in the record.

Mr. **Wilson**. Thank you, Mr. Chairman.

Mr. **Staggers**. As I say, you may get additional questions from Mr. Burton, and we'd appreciate your response. And we appreciate your being with us.

The second panel, we'll hear from Martin Perlman; Mr. Robert O'Toole and Jerry McGuire, respectively with the National Association of Home Builders, the Mortgage Bankers Association of America and the National Association of Realtors.

As I indicated, Mr. Perlman will lead us off.

Without objection, your statement also will be included in full in the record. If you would please summarize, we'd appreciate it.

STATEMENT OF MARTIN PERLMAN, FIRST VICE PRESIDENT, NATIONAL ASSOCIATION OF HOME BUILDERS

Mr. **Perlman**. Thank you, Mr. Chairman.

Mr. Chairman and Members of the subcommittee, I'm Martin Perlman of Houston, Texas. I've heard that City mentioned a couple of times this afternoon.

As first vice president of the National Association of Home Builders, I represent over 155,000 member firms and associates nationwide. I have personally actively participated in the construction of new single-family homes under the FHA and VA programs for over 20 years.

I had the honor of representing NAHB at the closing of the 12th million home loan in 1987.

Mr. Chairman, it is a pleasure to appear before you and to welcome you as you assume the leadership of the VA Housing Subcommittee. I look forward to working with you on issues of concern to the VA Home Guaranty Loan Program.

Mr. **Staggers**. Mr. Perlman, I appreciate that. And as I said earlier, if you could summarize, we would appreciate it. Your full statement will be entered in the record.

Mr. **Perlman**. I have appeared before this subcommittee four times over the past year and a half. And although the VA doesn't finance second homes, I feel like this may be my second home.

I'm pleased to present our views. The FY 1990 VA budget again calls for an increase in the VA user fee, a negotiated interest rate and Federal credit reform.

NAHB has a policy of opposing these proposals and urges that they again be rejected by the Congress. The FY 1990 budget proposes to increase the VA funding fee to 3.8 percent and to make the current 1-percent funding fee permanent.

This is the fourth year that the Reagan administration has recommended a fee increase, and we urge that it be the fourth year that it is rejected.

Congress needs to assess the piecemeal approach to funding the guaranty program with incremental fees which erode the entitlement—I repeat—the entitlement nature of the program.

The impact on the home-buying veteran of raising the VA loan guaranty fee to 3.8 percent would be substantial; assuming a veteran takes out a loan of $74,200, which is the average loan amount for a VA loan in FY 1988, at 10.5 percent, he'd have to come forward with up front cash of $742 with a 1-percent fee.

If the fee is increased to 3.8 percent, the up front cash payment increases to $2,078, bringing the total to $2,820.

I must say that many veterans would not be able to raise that much cash at the time they plan to purchase a home.

If the loan fee is financed at 10.5 percent over 30 years, the veteran could pay an extra $4,762 in interest due to the fee increase.

Both the Reagan administration and President Bush have continually expressed their opposition to new taxes. The fee increase proposal should be viewed as an increase in revenue at the veteran's expense.

The fee increase proposal in the Ginnie Mae program also has a substantial impact on VA, since roughly one-third of the collateral of Ginnie Mae securities is comprised of VA home loans.

Mr. Chairman, NAHB has long endorsed the VA's ability to set the program interest rate in order to protect the interests of the veteran and the guaranty fund.

Because of its sensitivity to market conditions, the VA continues to be an important national benchmark for mortgage interest rates, especially in a volatile interest rate environment.

For these reasons, we continue to support the Administrator's authority to set the VA interest rate, and to oppose the FY 1990 budget proposal which recommends a negotiated rate between the buyer and the lender.

We also reject the Federal Credit Reform legislation which restricts Government housing programs. Concerning asset sales, we urge that short-term budgeting gain be balanced against long-term loss of the income stream, determining the actual value of the sale.

We are also concerned that expertise will be lost if the staff reductions proposed in the FY 1990 budget are enacted. We urge that you prohibit the budget provisions which call for an imputed interest charge when the VA determines whether or not to acquire a foreclosed property.

We also urge you to extend the no-bid formula beyond the FY 1989 expiration date. Without this action, we feel lenders will be reluctant to participate in the program thus making it more difficult for veterans to obtain home ownership.

Mr. Chairman, before concluding, I would like to once again urge the Congress to support an adjustable rate mortgage for VA home buyers. We regret that this valuable mortgage instrument was dropped in the conference when the 1987 VA Housing Bill was debated.

An adjustable rate mortgage could save the veteran as much as $100 a month in monthly mortgage payments. A veteran also avoids the cost of refinancing when interest rates decrease. Last year's Housing Task Force report emphasizes that an ARM is necessary to make the VA program fully responsive to market developments.

This concludes my statement, Mr. Chairman, and I would be pleased to respond to any questions.

[The prepared statement of Mr. Perlman appears on p. 67.]

Mr. STAGGERS. If we can, we'll hear from the other panelists, but you set a great example with your summary and we appreciate it.

Mr. O'Toole, could you set a similar example?

STATEMENT OF ROBERT M. O'TOOLE, STAFF VICE PRESIDENT, DEPARTMENT OF RESIDENTIAL FINANCE/GOVERNMENT AGENCY RELATIONS, MORTGAGE BANKERS ASSOCIATION OF AMERICA

Mr. O'Toole. Mr. Chairman, MBA appreciates the opportunity to appear before you today and testify on VA's proposed fiscal year 1990 budget.

In addition, we are deeply concerned about the failure to implement the 1987 VA Home Loan Improvement Act. MBA opposes the provisions in the FY 1990 budget for a permanent 3.8-percent funding fee to be paid by the veteran at the time the loan is originated.

Such a fee would be a major erosion of the entitlement nature of the Home Loan Guaranty Program. We believe that the Congress must decide whether this program is to continue as an entitlement or whether it should be made actuarially sound.

Mr. Chairman, the VA proposes a change that would allow the sale of loan assets without recourse in all cases after September 30, 1989. MBA believes that loan sales without recourse are not in the best interests of the Loan Guaranty Revolving Fund and, over the long-term, the Revolving Fund would receive much greater financial benefit from loan sales with recourse.

The administration is once again submitting a proposal that will attempt to measure the grant equivalent subsidy of the Federal guaranty of VA home loans. MBA strongly opposes this action being taken under the guise of credit reform.

But, requiring appropriations of large amounts of budget authority and approval by Congress and the Treasury before any loans could be guaranteed would act as a credit limitation on a demand entitlement program. Also, the so-called subsidy would unfairly misrepresent the cost of the program because it would reflect much greater cost than the Government would incur.

Mr. Chairman, MBA supported the 1987 act and was pleased that Congress acted expeditiously on it. We find it particularly shocking that even though the bill was signed into law over a year ago, the VA has not implemented the no-bid formula changes, the provisions for underwriting assumptions and the new appraisal procedures.

MBA has exhausted every administrative effort to obtain the release of these regulations and urges the Congress to exert its influence to secure their immediate release.

The no-bid regulations have been delayed by OMB since November 4, 1988. The regulations for mandatory underwriting and loan assumptions and for direct appraisal by automatic lenders are still at the VA.

The VA has notified Congress that for fiscal year 1990, it intends to change the no-bid regulations to include the cost of Government borrowing in VA's calculation of net value.

This change will increase no bids by 10 percent and MBA opposes it.

In the report language accompanying the Deficit Reduction Act of 1984, which enacted the no-bid formula, the Congress unequivocally stated that it did not want the VA to include the cost of funds in the determination of net value.

Mr. Chairman, the number of no-bids has continued to increase, from 6.4 percent of foreclosures in fiscal year 1984 to 23.9 percent in fiscal year 1988. Lenders have still not experienced the benefits of the enacted 1987 no-bid relief. Including the hypothetical cost of funds in the no-bid formula will only add to the lenders' no-bid burden and do irreversible damage to the program.

Mr. Chairman, MBA recently surveyed our largest member firms and 70 percent of these lenders stated that they would restrict their participation in the VA program further if changes were made to increase the number of no-bids.

MBA strongly urges the Congress to act to prevent the VA's proposed change in calculating the net value of the foreclosed property. MBA believes the no-bid formula should be amended to exclude explicitly the proposed interest costs from the statutory definition of net value.

Mr. Chairman, MBA once again appreciates the opportunity to testify before your subcommittee and we'll be happy to answer any questions you may have now or for the record.

[The prepared statement of Mortgage Bankers Association appears on p. 76.]

Mr. STAGGERS. You did an even better job than Mr. Perlman. [Laughter.]

Mr. STAGGERS. Mr. McGuire, do you want to give it a whirl?

STATEMENT OF JERRY MCGUIRE, CHAIRMAN, THE GOVERNMENT MORTGAGE PROGRAMS SUBCOMMITTEE, NATIONAL ASSOCIATION OF REALTORS

Mr. MCGUIRE. I'll try, Mr. Chairman. I am a realtor from Denver, Colorado, the other end of the oil patch. On behalf of the more than 800,000 members of our Association, I also wish to thank you for the opportunity to present our views.

First, I'll address the area of increasing and making permanent the Loan Guaranty Funding Fee. We share the continuing concern for the financial stability of the VA Loan Guaranty Revolving Fund. The Fund is responsible for paying both the program's administrative costs and mortgage claims.

The Association believes that termination of the direct loan revolving fund, the subsequent sale of the majority of its direct loans, and loss of a steady revenue stream have threatened the viability of the VA home Loan Guaranty Programs by substantially increasing program costs and resulting in the need for higher appropriations.

The Association believes that affordable housing is and should continue to be an entitlement program for veterans. We are strongly opposed to the proposal to increase the funding fee from 1 to 3.8 percent, which would be effective October 1, 1989. Given the entitlement nature of the VA program, the Association cannot support any increase in permanent funding fees for those who have served their country.

Second, the Association supports the proposal to repeal VA's current authority to establish maximum interest rates and, instead, allow the borrower and lender to negotiate a rate in the guaranty loan.

The negotiated interest rate proposal would repeal the present authority of the Secretary of the VA to establish a maximum rate which veterans may pay on VA-guaranted home loans, and instead permit veteran borrowers and lenders to negotiate the interest rate.

The National Association of Realtors will not oppose a proposal which would substitute market forces of supply and demand for the artificial restriction on interest rates with the guaranteed loans.

A rapid increase in mortgage rates which occurred in March and April 1986 illustrates the need to allow competitive forces to determine the interest rates on VA loans. Although VA attempts to establish a rate which reflects the current market, the administered rate does not keep pace with market forces, particularly when the mortgage rates rise rapidly where the market is volatile.

We believe the negotiated rate on a VA-guaranteed loan is an important step in keeping the VA Guaranty Home Loan Program responsive to the economic and financial needs of all veterans.

Third, with regard to the credit reform proposal which would require subsidy payments to the Treasury, the Association's experience with credit reform proposals to date has been that they are invariably harmful to Government-sponsored housing financed programs.

Therefore, we urge in the strongest possible terms that Congress exercise extreme caution, study and deliberate before taking any action in the credit reform area.

We look forward to working with you in this extremely delicate area.

Fourth, regarding the Reagan budget proposal to restructure the law pertaining to loan asset sales, we suggest that the VA be authorized to sell loans with recourse provided that the purchase price is at least 9 percent of the unpaid principal balance.

There are two advantages to this. First, loans with recourse are a more attractive investment opportunity and will result in more sales than would otherwise be realized. Second, these loans received a higher price from investors.

A combination of these two factors results in higher revenues to the Federal Government. We remain concerned, however, that the sale of vendee loans without recourse will have an adverse affect on the program and will result in significantly lower sales to investors.

The Association has long sought to assure that the sale of VA vendee loans does not result in the dumping of valuable VA assets.

Fifth, with regard to the proposed reduction in loan guaranty staffing, the National Association knows that the inadequate staffing of the regional VA offices has, particularly during periods of low interest rates and high loan demands, contributed to the delay and processing of mortgage applications.

In some cases, the delay has been greater than 120 days, which is, under any standard, an unacceptable time frame. Thus, we commend the Congress for authorizing VA's use of direct appraisals to allow the entire loan package to move more swiftly to VA for approval.

Despite the most valiant efforts, however, it is our experience that VA can still be overwhelmed by the number of loans it receives for approval.

Thus, the National Association of Realtors believe that the staffing levels of the VA regional office should not be decreased, but increased.

Sixth, regarding the Reagan budget proposals to change VA regulations to include the cost of Government borrowing in determining whether or not to acquire foreclosed property, the Association understands that Government is attempting to recognize all costs in deciding whether or not to acquire a foreclosed property.

We are concerned, however, that the potential for increased inventory properties with interest will make them more reluctant to originate and serve as VA loans.

Mr. Chairman, Members of this subcommittee, I would like to thank you again for the opportunity to testify at this hearing. The Association looks forward to working with you and your staff to develop legislation which will better address the housing needs of veterans. I will also try to answer any questions you may have.

[The prepared statement of Mr. McGuire appears on p. 83.]

Mr. STAGGERS. Thank you, Mr. McGuire. I was somewhat joking with you about speeding you all up, but I appreciate each one of you being very concise and professional in your testimony. I want to thank you for that.

I do have a couple of questions. We'll start with Mr. Perlman, if I could.

Do you think that this has been a system to make the budget numbers look good only for 1 year rather than the long-term effectiveness of the programs?

Mr. PERLMAN. I'm not sure I understand the question.

Mr. STAGGERS. Do you think that some of the proposals from the VA look good for 1 year, but, the long-term effectiveness actually will decrease?

Have you seen that? Do you agree with that? That's just my opinion.

Mr. PERLMAN. I'm not sure I can answer that intelligently, Mr. Chairman.

Mr. STAGGERS. Then let me try another one.

You state that VA adjustable rate ARMs are necessary to modernize the VA Home Loan Guaranty Program.

Would you envision this type of ARM as similar to the FHA? Or do you think it should be convertible?

Mr. PERLMAN. I think that the introduction of ARMs is certainly a step in the right direction. I think that the convertible part of the ARM is certainly a plus factor for the borrower.

The experience we have had with ARMs that have caps on them and have the convertibility feature to them I think is something that is very positive and I must say that the VA program is the only market that doesn't offer those kinds of loans.

And I think they are doing that at the detriment of the veteran.

Mr. STAGGERS. I guess from my perspective, and this is another opinion, it seems to me that there is a higher foreclosure rate in ARMs. Why would this be any different for the VA system?

I guess I'm looking at maybe waiting to see what the FHA's experience is before we jump into this.

That's why I think from the veterans' standpoint, if ARMs are in the higher foreclosure rate, why should we do this to the veterans?

Mr. PERLMAN. I think, a couple of factors, Mr. Chairman.

First of all, the statistics on ARMs foreclosure have been directly impacted by the area that I come from, an area that is economically distressed. That is really not a fair reading of those statistics.

Second of all, in the real world, there are two impediments on people being able to achieve the great American dream. And that is first qualifying under high interest rates for the loan; and second of all, something that you are not facing now but if you impose the increased fee, you'll be facing, and that is the down payment requirement.

That's what I face every day in the marketplace.

Mr. STAGGERS. Going back to my point, wouldn't it be somewhat good to wait to see how the experience that you mention from your area—that's part of the reason there's been foreclosures, but couldn't there possibly be other factors?

And wouldn't it be wise to wait another year before we enacted such a change?

Mr. PERLMAN. I think that HUD and FHA can supply you with statistics, and we can supply you with statistics that would show the positive results of ARMs, and we'd be glad to do that.

Those are now being compiled. We've been talking about this issue for some time. I've been appearing before this subcommittee for the last 18 months, and we've talked about it at every session.

And when is the appropriate time, Mr. Chairman?

I think now is the appropriate time.

Mr. STAGGERS. I appreciate your feelings.

Let me switch to Mr. O'Toole if I could.

In an informal meeting earlier this week, you advocated reverse mortgages. What would be the benefit to veterans of reverse mortgages?

Mr. O'TOOLE. Well, Mr. Chairman, I think at that meeting I advocated a VA ARM and a VA reverse annuity mortgage. I advocated that the VA develop some mortgage instruments that are now very popular and are offered by other segments of the marketplace. You mentioned some of those.

But, one of the advantages of a reverse annuity mortgage is that it allows individuals who have equity built up in their homes to use that equity in their retirement years.

As the veteran population ages and as the general population ages, it gives an opportunity to those veterans who have equity to use and keep their homes, and to use it to supplement any retirement income that they have.

Mr. STAGGERS. Let me go to Mr. McGuire. I know my time is up, but the Chairman does have some privileges. Let me ask you just one question.

I will come back, Mr. Payne.

Without objection, if I could have another additional minute.

Mr. McGuire, do you believe that veterans will continue to use the programs if they have to pay 3.8-percent fee?

Mr. McGuire. I think it would seriously impact their usage. I really believe a big problem in today's society is putting together money up front to buy a house. I think the 3.8 percent would seriously impact that.

Mr. Staggers. I do have some other questions, and I'll review them and see if I want to submit them for the record.

Mr. Payne, do you have some questions?

Mr. Payne. Thank you, Mr. Chairman. I have one question, the same question for each of you.

It has to do with a comment that Mr. O'Toole made that the choice we have is one of entitlement versus actuarial soundness.

It seems to me that it's not necessarily a choice, but it's a spectrum and you move from entitlement to actuarial soundness. That's what we're faced with today, and these proposals move us more in that direction than perhaps we would like to see.

If we can agree that the purpose of the Veterans' Program is to guarantee or entitle access to affordable housing, given the pressures that we as a committee and the VA are under in this time of Gramm-Rudman to be as efficient as possible, do you have some suggestions as to how we might be more efficient, providing the entitlements that you want to provide and at the same time be able to save money for the Federal Government?

Mr. O'Toole. Mr. Payne, I think the overriding issue that has been the cloud over-hanging this program for the last 5 or 6 years has been the funding problem, with the need of the VA to come before the Congress for appropriations because of the high levels of foreclosure.

In the early eighties, foreclosures were in high in the upper Mid-West, and then that problem moved to the Oil Patch States. My feeling is that those problems are eventually going to work their way out with some improvements in underwriting that the VA has implemented over the last few years, and what we see is certainly no worsening of the economy in those areas. And, hopefully, some improvement in those difficult and troubled loans that are working through the system.

At the same time, if you reduce the expenditures for the payment of claims and foreclosures, I think it's helpful to look at ways to increase revenues.

I don't think it's to raise the fee because that becomes counterproductive. I think one of the ways is to increase participation in the program and to do that by having an adjustable rate mortgage that's acceptable in the marketplace, and by having efficiencies in the administration of the program.

One good example is the review of appraisal reports by automatic lenders. This is something that the Congress saw fit to pass that was submitted by the VA.

Any of those things will encourage the lenders, the real estate agents and brokers and the veteran home buying public to use the VA program.

There are a lot more choices now for the buyer, whether it's a veteran buyer or not, to use many different programs. And if the VA is not competitive in timely processing and in the types of products, The VA is not going to get their market share.

Mr. PERLMAN. Mr. Payne, before I came here, I looked in the dictionary for the word "entitlement". And one of the synonyms for the word "entitlement" is promise.

I think we have to make the determination:

Is this something we promised people who have served in the Armed Services of this country? That is a decision that the Congress has to make, but I'm sure that everyone who serves in the Armed Services is looking forward to the VA benefits as part of their compensation for that service.

I must say that the impact to the loan guaranty fund over the last year could be attributed to the Veterans' Administration's desire to move out of foreclosure and become more active in moving those properties at distressed prices.

I testified before this subcommittee when it appeared in Houston some 18 months ago that the VA was contributing to an ongoing depression in the marketplace. It was selling houses at depressed prices causing the market value of those houses to diminish and it was just a domino effect.

I think the VA has now learned its lesson in that, and I must say that, at least in Houston, they have done a good job in now doing some sensible disposition of foreclosed properties. So I think that we will have that particular situation straightened out, given enough time and will to straighten it out.

Bob addressed one area that we have a concern about and one area where we might be able to save some funds. And that is on the direct endorsement.

In our written statement, we make the point that the regulations only apply to existing houses and do not apply to new construction, although the VA is seeking comments on a pilot program.

We would certainly endorse the immediate adoption of direct approval of appraisals for new construction methods by the Veterans' Administration.

Mr. PAYNE. Mr. Chairman, can Mr. McGuire have just a minute to touch on the same question?

Mr. STAGGERS. Without objection.

Mr. MCGUIRE. Thank you, Mr. Payne. I believe there are several issues, and I agree generally with what the other two gentlemen said.

The foreclosure issue is something, obviously, in the oil patch, we believe it is going away. It's something that up until just a few years ago, we didn't really have. We weren't dealing with the problem.

In Denver, we have what we call value foreclosures and credit foreclosures. Talking about people walking because of the auctions and so on, that really did impact severely; when people were walking, they didn't necessary have it.

But I think, if we really work and put as much effort as possible to keep the veteran in the home, instead of allowing a foreclosure to take place, I think it does more for the fund than anything.

And I really believe there is not enough effort put into that side, in keeping the veteran in the home. And not allowing foreclosure to take place.

I don't know. Does that answer your question?

Mr. PAYNE. Yes, that's very helpful. Thank you.

Mr. STAGGERS. Without objection, if you want to ask other questions you may. I'm going to submit mine for the record. We thank you. We appreciate your testimony. You may be getting some questions to be submitted to the record at a later time.

We do appreciate your concise and professional testimony.

We'll now have the third panel:

Mr. Richard Schultz of the Disabled American Veterans; Richard Johnson of the Non Commissioned Officers Association; Dennis Cullinan of the Veterans of Foreign Wars; John Bollinger of the Paralyzed Veterans of America; James Hubbard of the American Legion; and he has with him Steve Robertson.

Gentlemen, without objection, your full statements will be submitted for the record. If you could summarize, we would appreciate it.

We'll start, as I said, with Mr. Schultz.

STATEMENT OF RICHARD SCHULTZ, ASSOCIATE NATIONAL LEGISLATIVE DIRECTOR, DISABLED AMERICAN VETERANS

Mr. SCHULTZ. Thank you, Mr. Chairman.

On behalf of the more than one million members of the DAV, I want to thank you for this opportunity to present our views on the VA's Housing and Memorial Affairs Programs.

Mr. Chairman, as you know, since fiscal year 1983, appropriations of nearly two billion dollars have been necessary to keep the Home Loan Guaranty Program operational, compounding the economic factors, which have caused a major increase in the number of loan defaults.

The program costs are significantly higher than they should be because of the low cure rate of loans and the issuance of bad loans, poor appraisal practices, the lack of adequate maintenance of foreclosed homes and poor marketing techniques.

Mr. Chairman, I believe everyone knows that additional FTEE will generate savings in the Home Loan Guaranty Program. I say everyone. I should say: everyone except OMB, apparently, because the administration is again proposing to reduce the FTEE by another 45.

Quite frankly, we in the DAV and the independent budget, believe that the VA needs a supplemental to add additional FTEE to the Home Loan Program, because we believe the need is urgent. And we can't wait for the new fiscal year to take care of the problems that are negatively affecting the Loan Guaranty Program right now.

I might also add that we look forward to working with the committee this year to solve some of these problems which have been confronting the Loan Guaranty Program.

As you know, the subcommittee last year addressed a number of issues and also passed a measure, H.R. 5221, which was supported by the DAV, and many other veterans' organizations.

In regard to some of the legislation that's been proposed by the administration, I first would like to say we know that they are again proposing to do away with the administration's authority to set mortgage rates.

We opposed that, as we have in the past. We believe, if this is done, it will just set a higher rate and veterans just will not be able to use the program. We also note the credit reform which has been proposed. Quite frankly, we oppose credit reform. We oppose the user fee increase, we're opposed to this because we believe it will ruin the program.

Quite frankly, charging a veteran to use the Home Loan Program, we believe, is not proper.

Also in regard to the Memorial Affairs programs, we believe they're currently doing a good job in attending to the burial needs of veterans.

However, we note that by the year 2000, there will be a severe shortage in open cemeteries throughout the country. The DAV supports at least one open cemetery in every State to help relieve this problem within the National Cemetery System.

Mr. Chairman, the proposal to initiate standard eligibility for a plot allowance, is just another effort to repeal an entitlement for veterans and, accordingly, we're opposed to the standardization of the plot allowance, or a reduction actually.

Also, we would like to point out that the State Cemetery Grant Program is a good program. We feel that should be funded. I believe they're asking for some $6 million. We believe that's appropriate.

I tried to summarize briefly a very lengthy statement. I hope that if you have any questions that we'll be able to answer them for you at a later time.

Thank you.

[The prepared statement of Mr. Schultz appears on p. 89.]

Mr. STAGGERS. It is a complex situation. I do appreciate your being able to summarize.

Mr. Johnson.

STATEMENT OF RICHARD W. JOHNSON, JR., DIRECTOR, LEGISLATIVE AFFAIRS, NON COMMISSIONED OFFICERS ASSOCIATION

Mr. JOHNSON. Thank you, Mr. Chairman. Let me begin this afternoon by congratulating you publicly on assumption of the Chair of this subcommittee. We look forward to working with you in the future and pledge our support in your new position.

The Non Commissioned Officers Association also opposes the issues, just to tick them off one at a time:

The negotiated rates we don't believe would be productive. They have no budget impact. If anything, they would increase the VA's exposure on liability.

The fee increases we think are a bad policy in that they transfer more of the cost of the program to veterans. This comes back a little bit to the accounting procedures that go into the program.

The credit reform serves no major purpose other than to cloud accountability, as far as we can see, and would serve no useful purpose in either accounting or assisting veterans to purchase homes.

Without recourse loan sales has been a program in which the Association has been interested for a long time, and the bottom line is it's a money loser. You can never make money with non-recourse loan sales. And there is no sense in liquidating assets with a fire sale mentality.

Termination of plot allowances with regard to cemetery and burial programs. Again, we join our colleagues at the DAV in saying that we are attacking the last of the entitlement programs that affect every veteran.

Burial entitlements are certainly the one thing, that the guy who never went into training under education and never had occasion to use a VA hospital sometime, is going to end up getting.

Because it came up a little earlier, I also want to address two things, with regard to accounting of the Loan Guaranty Program and with regard to adjustable rate mortgages.

As I was sitting in the back of the room, I was thinking about adjustable rate mortgages. This is a topic that keeps coming up. For lack of a better metaphor, it comes up like a bad lunch from year to year.

The problem with adjustable rate mortgages is twofold. One, most people do not have sophistication to understand that a 1-percent increase in an adjustable rate mortgage as computed on an annual basis averages out to anywhere between an 8.5 to 12-percent increase in the monthly payments.

Just sitting in the back of the room, I used one example: $75,00 house, the mortgage rate going from 10 to 11 percent. On the adjustment, the payment would rise from $658.18 to $714.24 per month. The actual rate of increase would be just over 8.5 percent, close to 9 percent. About a $56 a month increase in payment.

Now that's a substantial amount of money measured in monthly income. 1 percent doesn't sound like much, but if you'll forgive the expression, this is a yuppie loan. It is a loan designed for a young person with an income that is growing at a moderately fast rate. It is not a loan designed for a veteran on a stable income, who is living on cost of living adjustments or moderate increases in pay over the course of a year.

It is not something that belongs in a veterans' program.

Accounting for the Loan Guaranty Fund is something that's also disturbed the Association for some time. I am not sure exactly what kind of accounting is currently used. I'm not an accountant. I'm not well-schooled in accounting. It seems to me that the Veterans' Administration accounts for their program annual on a cash basis and that doesn't give us any picture of where the fund is as far as the assets it's holding in the way of real property. Non-cash assets is what I'm getting at.

It doesn't give us any idea of where the fund is going. It does give us a good, 1-year look at where they are and what they need to survive for another year. And we believe that can be a part of change.

Mr. Chairman, I'd like to turn to a major recommendation that we made in our budget statement this year. It is one of sitting back and taking a rather unique look at the Loan Guaranty Program, a unique look at veterans' programs in general.

If the Loan Guaranty Program were a civilian operation, any manager who came to look at it would say it needs to be recapitalized. The future of the program lies in its recapitalization, so it can go back into business and operate on a, quote, "more or less self-sustaining basis."

The only way to obviate the need for annual appropriations is to recapitalize the program and get back into direct loans, which are the only way to make money.

In our statement, we have outlined rather extensively a program for recapitalizing the program using investment from insurance reserves, which now total over $14 billion. Insurance reserves held by the VA in T-bills. It would require a change in law to allow the diversion of insurance investments from T-bills to the Loan Guaranty Program.

But, it would in no way jeopardize the insurance program while at the same time it can provide the kind of recapitalization in the Loan Guaranty Program that is necessary to once again restore it to profitable operation.

My time has expired, Mr. Chairman. I would love to continue, but I concede the point.

[The prepared statement of Mr. Johnson appears on p. 95.]

Mr. STAGGERS. If we had the time, I'd love for all of you to continue because these are important issues.

Dennis Cullinan.

STATEMENT OF DENNIS M. CULLINAN, ASSISTANT DIRECTOR, NATIONAL LEGISLATIVE SERVICE, VETERANS OF FOREIGN WARS

Mr. CULLINAN. Thank you, Mr. Chairman, on behalf of the 2.9 million members of the Veterans of Foreign Wars and its Ladies Auxiliary. I wish to thank you for the opportunity to take part in today's discussion, addressing the legislative proposal affecting the VA Home Loan Program.

I would also take this opportunity to express our heartfelt congratulations for your elevation to the Chairmanship of this essential subcommittee and state that we are very strongly impressed with the fact that you have chosen to immediately take charge in exercising essential oversight responsibilities of this subcommittee in such a timely manner and, of course, involving us in the process.

Mr. STAGGERS. Thank you.

Mr. CULLINAN. The first administration proposal under consideration today would increase and make permanent Loan Guaranty user fees from 1 to 3.8 percent. It's a matter of record of longstanding that the VFW strongly opposes any increase in the user fee for guaranteed home loans.

We believe any such increase would worsen what is already a discriminatory tax imposed on veterans. We strongly oppose any attempt to institute a permanent user fee or to increase the current fee.

Another misguided proposal contained in the President's VA budget is the repeal of the VA's current authority to establish maximum interest rates. In place of this carefully and professinally established standard, a veteran would be expected to negotiate with a lender to establish a mortgage interest rate.

Let me point out that the VA-established rate not only provides the veteran with greater parity in an unequal marketplace, but also serves as a national benchmark providing both the mortgage and building industries with increased stability that they would not otherwise enjoy.

We are convinced that eliminating the Administrator's authority to establish the ceiling would be a serious mistake. The next issue I'll address here is the administration's so-called Credit Reform Proposal as it pertains to the VA Home Loan Program. Our objections to this proposal are presented in some detail and length in our written statement.

I will simply state here that the VFW views this as a scheme whereby illusory paper costs are attributed to the Home Loan Program and would be transformed into a tremendous actual dollar appropriation burden for the VA Home Loan Program.

This proposal would also effectively place a cap on the operation of the program by requiring actual appropriation dollars to be paid into the newly-established Treasury Revolving Fund without being commensurate with VA loan activity.

Once the money appropriated for this purpose is used up, or was used up, the program would be prohibited from guaranteeing more loans.

I view this proposal as harboring disastrous consequences for the program and we vehemently oppose it.

In view of time constraints, I'll briefly summarize our views on the remaining legislative proposals under consideration today.

With respect to eliminating the prohibition of the selling of loans without recourse unless they can be sold at par value, the VFW at this time opposes this proposal, since we realize it would provide OMB with unrestrained authority to compel the program to sell off non-resource vending loans on a wholesale basis.

This would have disastrous consequences for the program.

The VFW views the proposal to reduce loan guaranty staffing by 45 FTEE as a misguided and cynical attempt to reduce costs while impairing the operation of this invaluable veterans programs.

We believe inadequate staffing has led to a lot of the program's woes in the past. It is our recommendation that staffing not be reduced, but increased. The VFW has no objection at this time to a proposed change in the VA regulations, which would include the cost of Government borrowing in the determination of whether to acquire or not acquire foreclosed property.

Finally, the VFW strongly opposes the administration's proposal to further restrict the payment of the $150 cemetery allowance to this nation's wartime veterans.

A plot allowance may be seen as the only veterans' benefit which is common and available to all wartime veterans. We do not believe this should be altered, Mr. Chairman.

I thank you for providing us with this opportunity to testify. We'll be willing to answer any questions you may have.

[The prepared statement of Mr. Cullinan appears on p. 100.]

Mr. STAGGERS. We appreciate your testimony and I appreciate your earlier compliment.

Mr. Bollinger.

STATEMENT OF JOHN BOLLINGER, ASSOCIATE LEGISLATIVE DIRECTOR, PARALYZED VETERANS OF AMERICA

Mr. **Bollinger**. Thank you very much, Chairman Staggers.

PVA appreciates this opportunity to testify today. We, too, thank you for conducting this hearing at a very early point in the session. We also wish to congratulate you on your new leadership role on this subcommittee. We look forward to working with you and your staff to continue the progress that's been made by the subcommittee.

The state of emergency which we find currently in the Home Loan Program is now, we believe, being compounded by a budget that is sorely lacking in fiscal and managerial substance.

We believe the former administration's budget proposal contains many inadequacies that should be rejected.

You've asked us to comment on seven of these proposals that come under the jurisdiction of this subcommittee.

Regarding increased funding fees from 1 to 3.8 percent, since the enactment of the 1-percent fee in 1984, we've consistently opposed efforts by the administration to reduce budget authority at the expense of this homeowner's entitlement program for veteran home buyers.

Congress, too, has rejected such proposals in the past. As the National Home Builders pointed out earlier today, the cost of an average house, an average new house, has escalated to about $127,000. In this case, the potential veteran home buyer would have to pay $4,830 just in VA funding fees, a fee for which he or she arguably gets very little in return.

We believe the enactment of increased funding fees would discourage many veterans from participating in the program.

Regarding maximum interest rates, we believe this proposal would have several adverse effects on the program.

First, there's little doubt that veterans would pay higher interest rates under this submission. Fewer veterans would be able to afford housing and ultimately the Loan Guaranty Revolving Fund would suffer.

We also believe the proposal would substantially increase VA claim costs, which in turn would adversely affect the revolving fund.

Regarding the credit subsidy legislation, we, too, oppose this for several reasons. Primarily we're concerned that, in the past, the Reagan administration has stated its subsidy amounts would serve as ceilings on the volume of new credit that is to be offered by the account.

We're very concerned that once this ceiling has been reached, (a ceiling which is based on VA projections) no more loans could be guaranteed from the traditional source of funding.

We believe this is an attempt to limit the number of loans the VA can guarantee and we urge the subcommittee to reject this initiative.

In regard to loan asset sales, as you know, current law prohibits the selling of loans after October 1 without recourse unless they can be sold at par. We do believe, if sold without recourse, but only if 90 percent or better is received, the VA will have a sufficient degree of flexibility without being permitted to sell at outrageously low prices, as has often been the case in the past.

We're deeply concerned regarding the former administration's budget, which calls for 45 fewer loan guaranty personnel. At a time when the program is experiencing critical shortages of experienced staff to handle both record numbers of new guarantees and significant regional foreclosure problems, additional staff reductions will have a crippling effect on the ability of the program to minimally carry out its mission.

The pilot program in Houston that Mr. Vogel talked about earlier today is an excellent example of how an investment in a few additional personnel would result in significant savings to the Government.

In regard to the cost of Government borrowing, we're concerned, as was pointed out by others today, that such an initiative would result in lenders becoming more hesitant to offer VA guaranteed loans. Including the cost of Government borrowing, we believe, will certainly result in fewer properties being acquired by the VA. Other forms of loans will then represent more attractive investments for lending institutions.

Regarding the plot allowance proposal, we've continuously opposed efforts to restrict the $150 cemetery allowance. We believe that restricting this benefit to limited categories of veterans represents an insensitive and uncaring approach to deficit reduction. And we encourage the subcommittee to once again reject this initiative.

In conclusion, I'd just like to reiterate our support for H.R. 5221, introduced in the 100th Congress. We believe the bill represents a good investment in the well-being of the Home Loan Program and we're pleased to support it in its entirety.

That concludes my statement. Thank's very much.

[The prepared statement of Mr. Bollinger appears on p. 105.]

Mr. STAGGERS. Thank you, Mr. Bollinger.

Mr. Hubbard.

STATEMENT OF JAMES B. HUBBARD, DIRECTOR, NATIONAL ECONOMIC COMMISSION, AND STEVE A. ROBERTSON, ASSISTANT DIRECTOR, NATIONAL ECONOMIC COMMISSION, THE AMERICAN LEGION

Mr. HUBBARD. Thank you, Mr. Chairman. You may not know it, but you and I have something in common. I have been in this position for almost eight days. I'd like to thank your staff for giving me a crash course in the VA Home Loan Program. If they've done as good a job with you as they have with me, we'll get along fine.

Mr. STAGGERS. Thank you.

Mr. HUBBARD. This program has served almost 13 million veterans since its inception. Probably the most challenging problem we face is the solvency of the Fund.

The administration suggested increasing and making permanent loan guaranty funding fees from 1 to 3.8 percent.

As apparently was Dick Johnson, I was also busy with my calculator in the back of the room. The average loan rate is $78,000. 3.8 percent of that is $2,964 financed at 10.5 percent over the 30-year loan, and it results in an additional payment of $27.11 per month for 360 months. The cost to the veteran if that is financed is $9,759.60. That's over three times 3.8 percent.

Needless to say, we're opposed to that. The administration seeks a change in the law to repeal the VA authority to establish maximum rates. That is not in the best interests of veterans. Lenders can make a VA loan at no risk and the interest rate ought to be less and it ought to be set by the Veterans' Administration based on sound financial practice.

On credit reform—Mr. Chairman, we do not agree with this measure. It raises questions over what authority the Treasury Department might have over the VA program decisions. At the very best, it only can be viewed as an expensive form of mortgage insurance, and it is certainly not good financial or accounting practice.

Concerning selling loans without recourse, Mr. Chairman, we agree with my colleague from the Paralyzed Vets that perhaps a certain amount of flexibility is necessary here for the VA to sell these instruments with or without recourse, but, we must structure the program in some way so as to prevent the Office of Management and Budget from forcing the Veterans' Administration to sell these at far below par.

We agree with everybody else here on this panel about the necessity of keeping those 45 fulltime equivalents and that reducing the staff at this point makes no sense.

The regulations concerning the acquisition of property under defaulted loans to include possible Government funding also makes no sense. It's not acceptable to us. All we can see it doing is lowering the net value of the property on the foreclosed loan, potentially increasing the cost to the veteran.

Every loan issued by this program has a ripple effect on the community. The local housing industry benefits, the real estate industry benefits, the builders benefit, the lenders benefit, and the community benefits by an increase in the local tax base. This program has had a positive effect on the economy and we ought to continue the program with improvements designed to restore its solvency.

With regard to the cemetery allowance issue, we support an increase in the current $150 plot allowance to $250 to offset the rising costs and allow the qualified veteran the dignity of a proper burial.

Mr. Chairman, in conclusion, I'd like to offer you some good news. We are proud to inform the subcommittee of a major accomplishment by our organization and the Veterans' Administration, made possible by Public Law 100-198. A provision of the law addresses the Homeless Program by allowing the VA to sell VA-acquired foreclosed properties to certain organizations for use as shelters primarily for homeless veterans and their families.

Our Legionnaires in Pittsburgh, Pennsylvania formed the American Legion's Housing For Homeless Veterans' Housing Corporation and purchased a 40-unit home. The facility is operated by the Highland VA Medical Center and provides a home for veterans who have no place to live after discharge from the medical center.

Legionnaires in the State raised $20,000 to purchase the property and agreed to appropriate an additional $5,000 for renovation, donated furniture and building materials for completion of the project. Ten current residents currently reside at the home. They pay a small fee that's used for maintenance of the facility.

And we're proud of this effort and we hope it serves as a model for future efforts in major metropolitan areas or even small areas, hopefully in conjunction with VA medical centers.

On this positive note, I'll conclude my statement.

[The prepared statement of Mr. Hubbard appears on p. 109.]

Mr. STAGGERS. You should be proud of that shelter, and you're to be complimented. Western Pennsylvania being very close to West Virginia, I can see the benefits directly and, hopefully, you have set a good example and others will follow. And you are to be complimented.

Mr. HUBBARD. Thank you, Mr. Chairman. We've publicized it well within our own organization as a method of community involvement that's very positive.

Mr. STAGGERS. Let me start with some general questions that anyone who wants to answer can.

It seems like we're all in agreement on the panel, and I agree with you also.

I guess going to the fee first, in my mind, I can't imagine that you would get veterans that would participate if they had to pay the fee. I mentioned this to the first panel:

Wouldn't it be likely that you'd have a reduced participation in the program? And wouldn't there be less revenue? In your minds, wouldn't there be less revenue than what we have now with 1 percent?

Would you agree with that?

Mr. JOHNSON. Logically, Mr. Chairman, we would agree there would be less revenue. But the disservice this does is to the cash poor individual who has a sustaining income to afford a home purchase.

In other words, the single greatest value in the Loan Guaranty Program today is the no down payment aspect of the program. If an individual is cash poor but wants to buy the house, he's going to pay the 3.8-percent fee. As Mr. Hubbard points out in his equation, he's going to pay for it over and over again.

And if, unfortunately, that individual loses that house in settlement of foreclosure, the VA doesn't even have the decency to reduce his indebtedness by the amount of the fee he paid. Instead, it runs in and robs him of 10.83 percent of the net value of the house under a formula prescribed in the Budget Reconciliation Act of 1984.

So his loss is magnified tremendously over what he would have lost on a commercial loan.

Mr. STAGGERS. Does anyone else want to comment?

Mr. SCHULTZ. Mr. Chairman, we certainly agree that by increasing the fee, you're going to have less veterans who are able to take advantage of the Home Loan Guaranty. And of course, the no down payment aspect is also threatened by that.

Also, it's just another example where veterans are being forced to pay for an earned benefit and we just do not believe that veterans should be required to pay for an earned benefit.

Mr. STAGGERS. So, even aside from the dollars and cents argument—I don't agree that the dollars and cents argument makes sense—but even before we get there, there's a philosophical argument.

Mr. SCHULTZ. Mr. Chairman, we opposed the 1 percent. We realized that it was necessary to save the program and that's why through the past several years we've made many recommendations to aleviate the problems, in the appraisal practices and many, many things for that Home Loan Guaranty Program that had to be fixed.

But, right up front, you had to charge the veterans before you even fixed the program. And I think we need to fix the program.

And I think this subcommittee has done a good job. We look forward to working with you again this year to continue that.

Mr. HUBBARD. Mr. Chairman, we also would oppose one-eigth of a percent. In our view, the American Legion thinks it's a duck, as Mr. Harris said earlier.

Mr. STAGGERS. Let me switch to the interest rates. If we remove the administration's authority to set the interest rates on guaranteed home loans, I think everyone is satisfied they think it will go up.

How high? Do you think it would be prohibitive? Do you think it would be slight?

Mr. Hubbard.

Mr. HUBBARD. I don't think the rate will go much above what the market rate is for mortgage loans. That would make no sense to the veteran. I can't imagine even an unsophisticated veteran negotiating a rate that's higher than the market rate for a conventional mortgage.

The interest rate, if you assume it's a reflection of risk on the part of the lender, ought to be lower for a guaranteed loan because the lender assumes no risk. The VA assumes the risk.

And I can't imagine an unsophisticated veteran realizing that. Most of our members are not very well-schooled in mortgage banking or accounting or other high finance. And I can't imagine anything but problems associated with allowing the lender to negotiate an interest rate on the loan for which the lender assumes no risk.

At the very most, it does nothing but increase the profits of the lenders.

Mr. STAGGERS. Even if we increased education programs to inform the veterans?

Mr. HUBBARD. That's a possibility and maybe that's something to be considered. But I still don't think the idea of sending an unsophisticated E5 who is living on a pension into a situation where he has to negotiate an interest rate with somebody who negotiates interest rates for a living is necessarily a fair way to approach it.

Mr. CULLINAN. Mr. Chairman, we of the VFW also foresee a significant rise. In certain cases, oftentimes, the veteran is going through the VA process taking advantage of the no down payment provision, which means he's generally strapped for cash.

We cite such an individual. He may not realize it but he might have to pay a point or two higher, but not being able to go elsewhere because he doesn't have the money for a down payment, he gets stuck in the process.

We see a significant cost to the veteran if this authority is taken away.

Mr. JOHNSON. And, Mr. Chairman, I think that can carry over to the private individual also and I think that represents one of the things the veterans are doing now for other folks, that they really don't realize the fixed mortgage rate at the VA is the only one that currently exists. And as a result, it serves as a competitive benchmark by which mortgage rates are measured for civilians.

Now, granted, they're all controlled in the market by the availability of mortgage money.

That's why the VA interest rate fluctuates. That is why the commercial interest rates fluctuate. But, at the same time, without that benchmark there is no measure that any individual can use in negotiating a rate on any reasonable basis other than random numbers.

Mr. STAGGERS. That's a good point.

Let me ask a question I asked to an earlier panel. I didn't get a response. Maybe it's just my opinion.

It seems to me that some of the budget requests have been formulated simply to make the numbers look good for just that year, rather than giving serious consideration to the long-term effects on the program.

In your opinion, do you agree with me? Or, am I off-base here?

Mr. JOHNSON. I agree with you fully, Mr. Chairman. That's what I was saying earlier.

There is no full measure of the value of the Loan Guaranty Program set forth on an individual page which shows the value of loans held, the value of sales, the value of mortgage inventory, the value of everything that is associated with loan guarantees.

The Veterans' Administration—actually, I'd rather blame it on the Office of Management and Budget. They're a nicer scape goat—requires a cash accounting to look at the program from year to year and its operations.

Because they do that, that's the only way they can keep coming back with something like a 3.8 percent-fee increase, because they can see no further into the future as to what will happen to the Loan Program 2 years from now.

The reason we're making billion dollar appropriations this year is because, when they were selling loans from the VA portfolio forcing loan sales at losses in the 1970s and the early 1980s, selling off their profit, they didn't understand what they were doing to the future.

That's why we're making billion dollar a year appropriations into the Loan Guaranty Revolving Fund, because they've only got a 1-year cash accounting of the program. They're trying to make the numbers match and trying to make the veteran pay.

Mr. CULLINAN. Mr. Chairman, I will simply say that this particular administration budget seems to have pulled out all the stops. None of these proposals are especially new; they've been around for years. But they hit them all at once.

It does seem odd. In our opinion, if Congress were to carry through on all of these proposals, it would really kill the programs. I can't imagine why else they would put them all up at once.

Mr. HUBBARD. Mr. Chairman, I agree with your conclusion.

Mr. SCHULTZ. Mr. Chairman, I also agree, but I think all the proposals that you see are just to get cash into the system and get it in there as fast as you can. A quick infusion of money, if you will.

But I think one of the major things we have seen especially is the wholesaling of the loans where you receive 55–56 cents on the dollar. You know, that's a short-term gain but long-term? , it's disastrous. Those are just indications, you know, you have a quick infusion of money in the system and:

"It looks good now. Well, the heck with tomorrow."

I think we need to look at tomorrow. That's why we're opposed to a lot of these provisions.

Mr. BOLLINGER. Being fifth in line here, Mr. Chairman, I haven't got too much to add to that. I would like to say, just briefly, regarding a couple of issues that surfaced today, I don't know how far down the road this subcommittee has gone with reverse mortgages, or if you've looked at them at all at this point.

PVA's concern here would be whether one's income that's generated by such an initiative would be counted for non-service-connected pension income limitation purposes.

We want to look very carefully at that before we go too far along the way with such a thing.

Also, in regards to adjustable rate mortgages, although we don't have a formal position on ARMs, we would consider a carefully constructed program.

I'm also interested in Dick's proposal about the life insurance fund, the $13 billion there. Perhaps this is something else the subcommittee could look into. We would be interested in developing further such an idea.

Mr. HUBBARD. Mr. Chairman, as you know, at the end of the last Congress, this subcommittee and the House passed legislation which addressed the problem of insolvency by providing some indemnity to veterans. We would be very interested in working with you to look at similar legislation.

We supported that bill and we could support something of a similar nature should it be introduced.

Mr. STAGGERS. I think it's March 16th we're planning a hearing. I would think staff will probably be contacting the veterans' groups to sit down and we can try to come up with some sort of workable bill to get something done. We'll be looking at that.

As far as what Mr. Bollinger and Mr. Johnson mentioned about the direct loan, one of the things which I have, at least I have kicked around in my head, was if we did enact the mortgage indemnity legislation and we did have a surplus, would you support using that mechanism as opposed to insurance using surplus of the indemnity program to fund the direct loans?

Or are you locked into the insurance plan?

Mr. JOHNSON. Not locked into it, Mr. Chairman, but I see it in a different scope. As we envisioned the program, we recommended in our prepared statement, we looked at a number of things. Mortgage indemnity I think is an option that should be offered to a veteran.

In addition to that, we also looked at reopening life insurance programs and offering mortgage life insurance programs, all of which would produce a premium surplus which could be used on a direct loan program.

The other thing we looked at is we've got a $13.7 billion life insurance fund which is committed at 4 percent, 4 percent is all that fund has to make to meet its commitments. Anything over that will ultimately go back to the Treasury as the last policy is paid.

But it only has to make 4 percent. We can obviously beat that with 10 and 11-percent interest rates on mortgages. Mortgages are always a fine investment for insurance companies. It would be very unlikely to find a life insurance company in the United States that doesn't hold a part of its own insurance reserve in a mortgage portfolio of some kind.

All we're saying is:

If we redirect the investments of the life insurance trust fund into the Loan Guaranty Program, then we can once again put it on a footing where it can competitively compete in the secondary mortgage market. Enjoy enough interest income at least to offset substantial needs for appropriations.

We're not saying the need for an annual appropriation can go away altogether. Certainly not immediately, not until the portfolio was established.

But, ultimately, we believe there can be enough of a revolving account there to do away with 1-percent fees and to obviate the need for a one-and-a-quarter percent versus three-quarter percent Government appropriation, as is proposed in the Loan Indemnification Program.

Mr. STAGGERS. I guess the philosophical question would be:

By whatever means we obtain a surplus and make the Loan Program sound, would the best use of that money be to reduce rates, reduce the fee, education or direct loans?

If we were shopping, if we had to pick—you may not have an answer to this now, but you may want to think about that for my benefit.

Mr. JOHNSON. I have an immediate answer to it, Mr. Staggers. We're looking not at taking that money and absconding with it, and if you ran it to education or if you ran it to any other program, that's exactly what we'd be doing—would we be stealing it?

What we're saying is: Invest that money for a return from the Loan Program.

Mr. STAGGERS. I guess maybe I didn't make myself clear. The Education, for instance, that we're talking about involves educating the veteran so that he can be more informed about his choices.

Mr. JOHNSON. Yes, sir, that would be spending without income. That would be committing that money. We're talking about investing this money in an income-returning product.

If we use it to educate home owners, then we'd be spending it without investment return and that would be bad.

Mr. STAGGERS. Without objection, Rufus Wilson has at least one question.

Mr. WILSON. I think most of you have already answered this question, but while you oppose an increase in the 1-percent loan fee, what would your position be on attempting to extend it beyond its current expiration date?

Just go from one end of the panel to the other.

Mr. Johnson. NCOA would remain opposed to any fees.

Mr. Cullinan. And the VFW is essentially opposed to the fee. We would certainly not wish to see it increased. However, we have understood in the past that a freeze in the fee has resulted in the prevention of an increase. So, in that sense, we support it.

Mr. Hubbard. The American Legion is also opposed to a fee.

Mr. Schultz. Mr. Wilson, the DAV, as I said before, is opposed to the fee. Of course we realize the reason the fee was put in was because of the revolving funds financial problems.. But, should they continue this fee beyond the expiration date.

We would also ask that compensibly-disabled, service-connected veterans continue to be exempted from that fee, as they are now.

Mr. Bollinger. Mr. Wilson, PVA also would oppose the fee. But I might add that we did support the indemnity fee in H.R. 5221 as it was written in that legislation.

Mr. Wilson. Thank you, Mr. Chairman.

Mr. Staggers. If there's other questions, some of the Members who had to leave early may want to submit questions in writing—I just want to alert you to that possibility.

Mr. Staggers. I want to thank you all for your participation and for your involvement.

This hearing is now closed.

[Whereupon, at 3:30 p.m., the hearing was adjourned.]

APPENDIX

STATEMENT OF R. J. VOGEL
CHIEF BENEFITS DIRECTOR
VETERANS ADMINISTRATION
BEFORE THE
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
COMMITTEE ON VETERANS' AFFAIRS
HOUSE OF REPRESENTATIVES
FEBRUARY 9, 1989

Mister Chairman and Members of the Subcommittee:

I am pleased to appear before you today to discuss the Veterans Administration FY 1990 budget request as transmitted by President Reagan to the Congress on January 9, 1989, specifically those areas of the Department of Veterans Benefits budget that are of interest to the Subcommittee on Housing and Memorial Affairs. This testimony does not reflect any budget revisions made by the Bush Administration.

Budget Overview

The Reagan budget's 1990 request for the Loan Guaranty Revolving Fund anticipates budget authority of $1,363,800,000 consisting of an appropriation of $453,000,000 and $910,800,000 in proceeds from recourse loan sales. In 1990, we anticipate acquiring 28,576 properties, processing 45,909 claims, and guaranteeing 177,950 loans. The Reagan budget included proposals that would reduce budget authority for the Fund by $1,112,900,000 to a level of $250,900,000. Those proposals consist of an increase in the funding fee to 3.8 percent, allowing the Agency to sell loans with or without recourse, allowing a lender to submit a claim upon receipt of the Agency's resale price on a manufactured home, savings from funding the Loan Production System (LPS) in 1989, and the initiation of the Reagan Administration's Credit Reform Program.

The Reagan budget request for the Department of Veterans Benefits is $548.8 million and 12,100 FTEE in 1990 which is a net increase of $33 million in new budget authority and a decrease of 550 in average employment. The Department of Veterans Benefits' request to support the loan guaranty program is $68.6 million and 2,033 FTEE which is a $3.2 million increase in budget authority and decrease of 45 FTEE. Included in the Department of Veterans Benefits' budget is $3.8 million for the first year of a 2-year Loan Guaranty Property Management Pilot Program. The Pilot Program will evaluate the feasibility and cost-effectiveness of accomplishing the acquisition, management and resale of 10 percent of the Agency's property inventory by utilizing a private sector contractor. As previously stated, legislation would be necessary to fund the Loan Production System (LPS) from the Loan Guaranty Revolving Fund appropriation rather than the General Operating Expenses appropriation. LPS is a multifaceted project designed to automate certain loan guaranty work processes which are now largely manual and duplicative. This initiative will save the Department of Veterans Benefits 177 FTEE in 1990, of which 70 FTEE are in loan guaranty. The initiative would also produce savings to the Loan Guaranty Revolving Fund of $21.5 million in 1990.

The Reagan budget's 1990 request for the Burial Benefits and Miscellaneous Assistance appropriation anticipates budget authority of $152,606,000. This will support a workload of 130,050 burial allowances, 342,400 burial plots, 412,000 burial flags, 288,900 headstones or markers, and 60,500 headstone allowances in lieu of headstones or markers. The Reagan budget reflects legislation to change the eligibility requirement for the burial plot allowance to be consistent with the eligibility requirement for the basic burial allowance, with the exception that State cemeteries will continue to collect plot allowances for all veterans who are buried there. The savings from this proposal are estimated to be $36.5 million in 1990.

Mr. Chairman, you specifically invited testimony on the proposed increase in the loan guaranty funding fee, negotiated interest rates, credit reform, vendee loan sales, reductions in PTEE, inclusion of imputed interest in net value calculations, and restrictions on payment of the cemetery allowance. I am pleased to discuss these issues at this time.

Increase in the Loan Guaranty Funding Fee

The Reagan budget proposes an amendment to section 1829 of title 38, United States Code, to increase and make permanent the VA loan fee. At present, that section imposes a fee of 1 percent of the loan amount upon veterans who obtain housing loans guaranteed, insured, or made by the Administrator under chapter 37 of title 38, United States Code, and upon persons who receive vendee loans from the Administrator in connection with the purchase of real property from the Administrator. Disabled veterans receiving compensation, or who would be entitled to compensation but for the receipt of retirement pay, and surviving spouses of veterans who died from a service-connected disability are exempt from paying this fee.

The fee is collected at the time of loan closing, and may be financed with the loan. Proceeds from the fee are deposited into the Loan Guaranty Revolving Fund (LGRF).

The Omnibus Budget Reconciliation Act of 1982, Pub. L. No. 97-253, § 406, imposed a fee of one-half of 1 percent for loans to veterans closed after September 30, 1982. The Deficit

Reduction Act of 1984, Pub. L. No. 98-369, § 2511, increased the fee to 1 percent. Authority to collect the fee expires October 1, 1989.

Under the Reagan Administration's proposal, on loans closed on or after October 1, 1989, the fee would be increased to 3.8 percent and the loan fee would be made permanent. Vendee loan purchasers would be subject to the same fee.

The Loan Guaranty Revolving Fund provides moneys for all loan guaranty operations except general administrative expenses. The LGRF also provides some funding for supplementary services and equipment pursuant to Pub. L. No. 100-689, § 303. Since Fiscal Year 1984, this fund has required $2.281 billion in direct appropriations and $360 million in transfers from the readjustment benefits account in order to remain solvent.

In Fiscal Year 1988, over $916 million was appropriated to the LGRF, and an additional $200 million was transferred to the fund from the appropriation for Readjustment Benefits (of which $21.7 million was subsequently transferred to another appropriation account). For FY 1989, $658 million was appropirated and the Reagan budget requested a supplemental appropriation of approximately $312 million.

The VA home loan program has been and continues to be of great importance to present and former members of the Nation's Armed Forces who seek to become homeowners. We are mindful that the cost to the taxpayers of operating the program and paying claims on loans resulting in foreclosure are significant. Since the loan guaranty program provides a unique benefit (i.e. no-down-payment terms) for a select group of beneficiaries, we believe that this group should bear a portion of the cost of providing the benefit through a modest, one-time fee.

Repeal of VA's Authority to Establish Maximum Interest Rates

The Reagan budget also proposed negotiated interest rates on VA guaranteed loans. This proposal would allow the veteran and the lender to agree upon an interest rate for the home loan so the veteran can benefit from the best combination of interest rate and points. This would be accomplished by repealing the authority of the Administrator to set the maximum interest rate which veterans may pay on VA guaranteed home loans currently contained in 38 U.S.C. § 1803(c) and manufactured home loans contained in 38 U.S.C. § 1812(f).

The Housing and Urban-Rural Recovery Act of 1983, Pub. L. No. 98-181, § 404, enacted November 30, 1983, repealed the authority of the Secretary of Housing and Urban Development to set interest rates on loans insured by the Secretary. Such loans may now bear interest at any rate agreed upon by the borrower and lender.

Although the Veterans Administration makes every effort to reflect the loan market in setting interest rates on guaranteed home loans, it is not always possible for such rates to keep exact pace with money market demands. When the cost of money is not adequately reflected by the VA interest rate, lenders charge points to bring their yield into line with secondary market demand. One "point" equals 1 percent of the loan amount. The points must be paid in cash at loan closing. The Veterans Administration has interpreted the law as not permitting veterans to pay points, except under certain limited circumstances spelled out in 38 U.S.C. § 1803(c)(3); e.g., refinancing and home improvement loans. This is because, if the veteran paid this amount, he or she would, in effect, be paying an interest rate above the permitted maximum. Thus, the seller normally absorbs these costs.

Sellers who are reluctant to pay points either refuse to sell with VA financing, or increase the selling price of their homes to reflect the anticipated points. In neither instance is the veteran being benefited.

Under this proposal, the veteran buyer, the seller, and the lender could negotiate on whether the rate, and thus the monthly payment, would be lowered in exchange for a certain number of points and, if it is, who will pay some or all of such points.

This change will also encourage sellers to sell with VA financing and charge veterans the same price as nonveterans for the home. Thus, the transaction could be tailored to fit the needs and circumstances of the parties involved, and would allow the veteran greater flexibility in obtaining the best financing options.

Under the proposal, the Veterans Administration would not authorize adjustable rate mortgages; the proposal requires that the loan bear the same interest rate for the life of the loan. However, nothing would preclude lenders from waiving collection of a portion of the interest. This would permit "buy downs" where a builder or developer arranged for a lower interest rate for the first few years of the loan. VA currently permits buy downs. It is estimated that enactment of this proposal would result in administrative cost savings of less than $100,000 in any fiscal year.

Credit Reform Proposal Requiring Subsidy Payments to Treasury.

The Reagan Administration reproposed reform of Federal credit programs. The VA's home loan program plays a significant role in the extension of Federal credit to home buyers. Veterans who obtain no-money-down loans from private lenders receive a substantial subsidy from the Federal Government. Private mortgage insurers would charge significantly higher fees to provide these credit terms.

The proposal requires that Congress appropriate the total dollar value of subsidies on new GI loans and vendee accounts each fiscal year. The VA would use these appropriations to pay the subsidy costs to a new central revolving fund at the Treasury. This fund would receive appropriations and funding fees and would be responsible for all future costs in connection with defaults occurring on loans originated in 1990 and beyond. The total estimated subsidy amount in FY 1990 is $833.025 million.

Authority to Sell Vendee Loans Either With or Without Recourse

The Reagan budget also proposed to revise provisions of the law related to the sale of vendee loans by the Veterans Administration. Following the foreclosure of a loan guaranteed or made by VA, the Administrator frequently acquires the property that secured the loan. The Veterans Administration then sells these properties in an effort to recoup the Government's loss under the guaranty. In some cases, the Veterans Administration provides seller financing, commonly known as a "vendee loan." The Veterans Administration may then sell the paper for such vendee loans to generate immediate cash for the Loan Guaranty Revolving Fund (LGRF). Historically, this paper has been sold with recourse; i.e., the Government agrees to buy the note back from the holder if the borrower defaults.

Credit management policies, however, favor selling loan assets without recourse. Selling with recourse runs counter to effective debt management and does not provide an accurate measurement of the subsidy inherent in Federal credit. In addition, selling the loans with recourse creates a contingent liability to the Government for the full face value of the loan. This contingent liability represents the full extent of the Government's cost for repurchasing vendee loans that eventually default.

Accordingly, the Veterans Administration began selling loans without recourse in Fiscal Year 1988. To date, two sales have been held. These loans were sold to a trust which issued mortgage-backed securities utilizing a senior-subordinate structure with bond insurance.

As required by 38 U.S.C. § 1833(a)(3)(B), the Administrator provided the Congress with detailed reports on the results of these sales. In summary, the first sale of 8,903 loans with a principal balance of approximately $308.9 million was closed June 29, 1988. This sale resulted in up front net proceeds to the Veterans Administration of approximately $179 million. When the expected cash flow of the subordinate certificates is taken into account, this sale produced a yield equivalent to 88.6 percent.

A second sale was held September 23, 1988. The Veterans Administration sold an additional 6,177 loans with a principal balance of approximately $234.3 million. This sale resulted in net proceeds to the Veterans Administration of approximately $128.8 million, producing a yield equivalent to 90.7 percent.

During Fiscal Year 1989, three nonrecourse sales are planned.

As the results of the sales already held demonstrate, selling loans without recourse is a viable option. Amendments to section 1833(a)(3) of title 38 made by Public Laws 100-136 and 100-203, however, have restricted the freedom of the Administrator to sell loan assets without recourse. As the law now stands, until October 1, 1989, the Administrator will be required to make complex projections of the anticipated yields and costs of recourse and nonrecourse sales of each block of loans to be offered for sale. Based upon such projections, the Administrator will determine whether it is in the best interests of the effective functioning of the loan guaranty program to sell with or without recourse. After October 1, 1989, The Veterans Administration would be prohibited from selling loans without recourse unless they could be sold at par. For all intents and purposes that would preclude selling loans without recourse.

The present law imposes complex and costly administrative requirements on VA without tangible benefit. Further, the effective prohibition of selling without recourse after October 1, 1989, is an unnecessary and unwarranted interference with the administrative flexibility required by the Administrator to dispose of loan assets.

The Reagan budget proposed to grant the Veterans Administration the flexibility to sell loans in a cost-effective manner, either with or without recourse, without the administrative burdens now contained in the law.

Reduction in Loan Guaranty FTEE of 45

The FY 1990 budget requests 2033 FTEE for the loan guaranty program. This represents a decrease of 2.2 percent from the latest estimate of 2,078 in FY 1989. This slight decrease in employment reflects projected reductions in major program workloads. Claims processed resulting from foreclosures of GI loans are estimated to decline 6 percent while property acquisitions decrease by 17 percent. The reduced workloads are expected because of improving economic conditions in the southwestern United States. We believe that a high level of quality and timeliness of services to veterans can be achieved with the requested level of resources.

Include the Cost of Government Borrowing in Determining Whether to Acquire Foreclosed Property

The Deficit Reduction Act of 1984 required the Veterans Administration to take into account all anticipated costs for acquisition, management, and disposition when determining whether or not a property is to be acquired in connection with the termination of a GI loan. Presently, the Veterans Administration considers all estimated cash expenses for these items in determining the net value of the property to the Government, and will acquire a property if its net value is greater than the amount owing on the loan minus the amount of our guaranty.

The cost of Government borrowing is a bona fide economic cost incurred by the Government for holding acquired properties in inventory before resale, and should be taken into consideration when the net value of a property to the Government is determined. Accordingly, the Veterans Administration is in the process of work to include this factor in its determination of net property value. Use of this factor will result in a reduction in a property's net value. For example, based on FY 1988 data, VA estimates acquisition, management, and disposition costs to amount to 10.63 percent of a property's fair market value, and the fair market value is reduced by that amount to arrive at its net value. If the cost of Government borrowing were also included as a cost, the fair market value would be reduced by 14.03 percent to arrive at the net value. This will reduce the number of properties the Veterans Administration acquires by about 10 percent. The inclusion of this item in the net value determination means that all valid economic cost factors will be taken into account in the Veterans Administration's decision to acquire or not to acquire properties, and is expected to save $187 million in FY 1990.

Another effect of this change will be to increase the claim payable under loan guaranty in many cases. The proposal provides that the increase in the claim will not be charged to the veteran obligor.

Proposal to Make Eligibility for Plot Allowance the Same as for Burial Allowance

As originally conceived, the plot and burial allowance were to facilitate honorable burials for veterans who died in service or lacked sufficient funds to cover burial expenses. In 1981 Congress recognized that Federal burial assistance programs had expanded well beyond their original purposes and benefits were paid on behalf of persons who possessed ample resources to pay such expenses. Section 2001(b) of Public law 97-35 was enacted to restrict eligibility for the burial allowance to veterans entitled to disability compensation or pension at the time of death. A subsequent amendment further solidified the concept that burial benefits were to be directed primarily to those veterans who suffered diminished earning capacity by reason of active service and those who demonstrated financial need. The Reagan budget proposed standardization of eligibility for the burial plot allowance as the logical final step in this process.

While the impact on any affected survivors would be only to bear another $150 of the burial expenses, the monetary savings to the Government would be approximately $150 million for a 4-year period.

Mister Chairman, this concludes my statement. I would be pleased to answer any questions you or the other members of the subcommittee may have.

STATEMENT
BY
ARTHUR S. HAMERSCHLAG
DEPUTY DIRECTOR, NATIONAL CEMETERY SYSTEM
BEFORE THE
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
OF THE
COMMITTEE ON VETERANS' AFFAIRS
HOUSE OF REPRESENTATIVES
ON
FEBRUARY 9, 1989

Mr. Chairman and members of the Subcommittee, I am pleased to be appearing before you this morning to present testimony concerning the budget request for the National Cemetery System as contained in President Reagan's FY 1990 budget. The Bush administration's revisions to the Reagan budget will be released shortly.

Introduction

The National Cemetery System originated during the Civil War, when President Lincoln and the Congress provided that permanent burial grounds would be set aside for soldiers who died in service to their country. In 1973, Public Law 93-43 formally established the National Cemetery System as part of the Veterans Administration. Jurisdiction over 82 cemeteries was transferred from the Department of the Army to the VA. These were combined with 21 cemeteries previously operated by VA medical facilities, to form the basis of the System as we know it today. Arlington National Cemetery, the cemetery at the Washington Soldiers' and Airmen's Home, and various post cemeteries remained under the jurisdiction of the Army. Since then, 9 cemeteries have been added to the System, bringing the total to 112 cemeteries within the National Cemetery System.

The National Cemetery System has a three-fold mission, established in law:

o Operation of 112 national cemeteries and 32 burial plots and monument sites located throughout the United States and Puerto Rico. Present and former members of the armed services with a discharge other than dishonorable; their spouses, widows, or widowers; and certain dependent children are eligible for burial in any national cemetery with available grave space.

o Providing government markers upon request for the graves of veterans in private cemeteries, and for all graves in national and state veterans cemeteries. Memorial markers may be provided for veterans whose remains were never recovered, lost at sea, donated to science, or otherwise not available for burial.

o Administration of the State Veterans' Cemetery Grants program. Matching grants are provided to states for the development or improvement of state owned and operated veterans cemeteries.

In Fiscal Year 1990, the National Cemetery System will also assume responsibility for administering the Presidential Memorial Certificate program.

The goal of the National Cemetery System is to conduct veterans' memorial programs with dignity, effectiveness and compassion, and to assure that the national cemeteries are maintained as fitting shrines to all veterans who have served their country. Community participation in this important part of our nation's heritage is encouraged.

President Reagan's FY 1990 Request

The Reagan administration's Fiscal Year 1990 request includes $48,814,000 for General Operating Expenses, including an average employment of 1,238; $4,356,000 for grants for the construction of State Veterans' Cemeteries; and $15,480,000 in construction funding.

The General Operating Expenses appropriation request includes initial funding for the activation of the new San Joaquin Valley National Cemetery as well as the operation and maintenance of the existing 112 national cemeteries. Obligation and employment estimates are included for operation of the National Memorial Cemetery of Arizona, but no funding is requested for the General Operating Expenses appropriation as the costs will be borne by reimbursements from the Compensation and Pensions appropriation and the State of Arizona, under the provisions of Public Law 100-322.

President Reagan's Fiscal Year 1990 General Operating Expenses request represents an increase of $3,195,000 and 35 average employment over the Fiscal Year 1989 current level. The National Cemetery System annual workload is estimated to increase in Fiscal Year 1990 to 60,500 interments, 1,823,600 gravesites maintained, and 291,000 headstone and marker applications processed.

The construction request contained in the Reagan budget includes $5,000,000 for minor construction projects and $10,480,000 for major projects. Major projects requested include construction funding for gravesite development projects at Jefferson Barracks, Missouri and Fort Snelling, Minnesota; funding for Facility Development Plans and Capitol Facilities Studies at selected cemeteries; as well as planning or design funds for gravesite development projects at Fort Sam Houston, Texas; Riverside, California; and Fort Logan, Colorado.

The FY 1990 Reagan budget requested $4,356,000 for Grants for State Veterans' Cemeteries. This level should provide ample resources to meet the demand from the states for grant funding.

Accomplishments

In December 1988, an agreement was concluded with the State of Arizona regarding the transfer of the Arizona Veterans Memorial Cemetery to the National Cemetery System. We look forward to this addition to the National Cemetery System and the opportunity it provides to better serve the needs of veterans and their families. Operational responsibility will be assumed on April 1, 1989, with a transfer ceremony planned for April 15, 1989.

Progress continues to be made on construction of the new San Joaquin Valley National Cemetery in northern California. Preliminary plans were completed last September, and the working drawings contract was awarded in January 1989. We currently estimate that construction will be completed in May 1991. Another new cemetery, the Florida National Cemetery, in Bushnell, Florida, was opened in May 1988.

At the beginning of FY 1989, four cemeteries were using graveliners. These cemeteries are Calverton, New York; Riverside, California; Massachusetts National Cemetery; and Florida National Cemetery. A graveliner is a rigid outer container, typically made of concrete, that is designed to prevent graves from sinking. They are in common use in the private sector. A study by the A/E firm of Clarke & Rapuano Inc. has outlined a methodology for determining at individual cemeteries whether graveliners are cost beneficial. The National Cemetery System will be evaluating its most active cemeteries to determine whether graveliners will be cost beneficial. So far in 1989, three new cemeteries have begun using graveliners. These cemeteries are Houston, Texas; Fort Sam Houston, Texas; and Fort Snelling, Minnesota. Public Law 100-322 authorized graveliners to be charged to the Compensation and Pensions appropriation.

Reagan Administration Policy on Future Development

In June 1987, a study of the National Cemetery System was submitted to Congress in accordance with Public Law 99-576. As a result of that study, a policy review was conducted regarding meeting future demands upon the National Cemetery System. A policy document was prepared and discussed within the Veterans Administration and within the Reagan administration. This is a complex issue and it was examined from a number of perspectives. It was decided that the regional concept would remain the policy of the National Cemetery System. Expansion under the regional concept was completed with the opening of Fort Mitchell in Alabama, and no 1990 or future year funding is requested for the planning, design, or construction of new cemeteries. Under the Reagan budget, veterans' future burial needs would continue to be met by phased development of presently undeveloped land in existing national cemeteries, expansion of existing national cemeteries through acquisition of adjacent land where practical, ensuring that one large national cemetery is open in each of the 10 standard Federal Regions and in the Washington, D.C. area, and encouragement of expanded participation in the State Veterans' Cemetery Grant program.

Consistent with Congressional guidance, Environmental Impact Statements are under way regarding possible sites for new cemeteries in the Albany, New York; Cleveland, Ohio; Chicago, Illinois; and Seattle/Tacoma, Washington areas. Advertisements have been published for prospective sites in those areas and for consultants to prepare the statements. Award of the consulting contract is expected by the end of April 1989, with all four Environmental Impact Statements completed and approved by the Secretary of Veterans Affairs by the end of September 1990. The Reagan budget requests no funding for further planning, design or construction of cemeteries in these four areas, as their regions are already served by large national cemeteries.

Workload and Initiatives

National Cemetery System workload has grown steadily in recent years. Between Fiscal Years 1983 and 1990, annual interments have increased 35.4 percent and gravesites maintained have increased 20.5 percent. Despite these increases, average wage grade employment has increased only 4.1 percent, illustrating the strides we have made to become more productive and efficient. With your permission, I request that a graph which illustrates these relationships, and which accompanies this statement, be entered for the record. Of the requested 35 increase in average employment, 13 are for increased workload in existing cemeteries, 8 are for staffing the new National Memorial Cemetery of Arizona, 4 are for activation of the San Joaquin Valley National Cemetery, and 3 are for employing automated data processing support personnel at each National Cemetery Area Office. Another 7 result from the transfer of the Presidential Memorial Certificate program to the National Cemetery System from the Veterans Benefits Administration.

In 1989, 2.1 percent of the 4.1 percent pay raise is being absorbed within existing resources, and the planned National Cemetery System budget will be reduced $1,745,000 by a reprogramming of budget authority to provide additional payroll funding to the Veterans Benefits Administration. Though the 1989 Reagan budget request for the National Cemetery System had included $1,097,000 for graveliners, which now are funded from the Compensation and Pensions appropriation, the pay raise absorption and the pending reprogramming have required reductions in planned equipment purchases and maintenance project in 1989.

Major renovation projects have been undertaken recently at two national cemeteries. A $1.3 million minor construction project at Long Island National Cemetery, New York, was awarded in 1988 to fill in low areas, raise and realign headstones, add topsoil, and provide seed and weed control. Contract completion is expected in 1990. A similar contract is out for bid at Golden Gate National Cemetery, California, with an estimated cost of $400,000. This will be a significant first step in the complete grounds renovation of this cemetery. An additional estimated $150,000 in 1989 General Operating Expenses funding will be spent at Golden Gate for gopher control and headstone cleaning. The National Cemetery System has been working on these problems for a considerable period of time. We will continue to undertake comprehensive renovations as needs develop and funds permit.

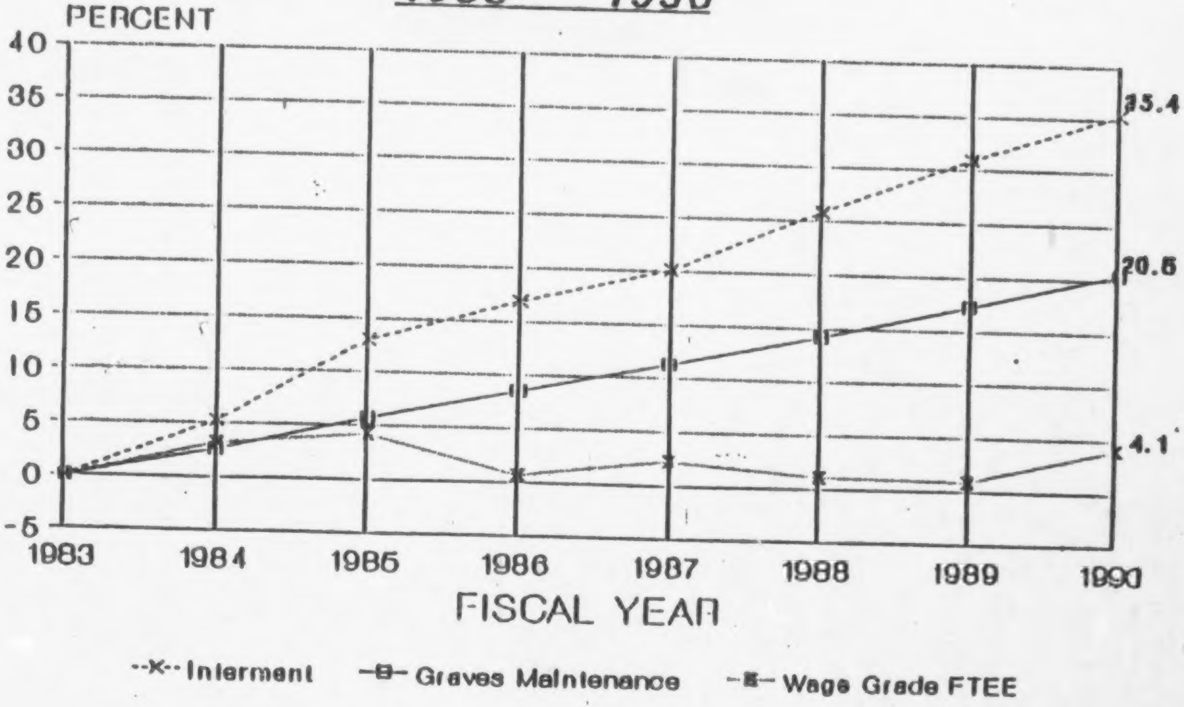
Summary

As set forth in this testimony, the National Cemetery System is constantly striving to improve and refine its operations. The necessarily constrained budgets of recent years have challenged us to increase our efficiency and productivity. Our mission is an important one, and serves the living as well as the deceased. As reflected in our credo, we are all dedicated to, and take great pride in, carrying out this mission.

Mr. Chairman, I would like to thank you for the opportunity to appear here today, and I would be pleased to answer any questions that you or other members of the Subcommittee may have.

DMA WORKLOAD AND FTEE

1983 - 1990



National Delinquency Survey

Prepared by the MBA Economics Department
November 30, 1988

Mortgage Bankers Association of America
1125 FIFTEENTH STREET, N.W. • WASHINGTON, D.C. 20005

DATA FOR SEPTEMBER 30, 1988
AND FOR 3rd QUARTER 1988

The delinquency rate for mortgage loans on one-to four-unit residential properties fell 17 basis points in the third quarter, from 4.90 percent to 4.73 percent. This decline more than offsets the 12 basis point increase during the second quarter. Nevertheless, despite the third quarter drop, the overall delinquency rate is 2 basis points higher than in the third quarter of 1987.

The decline in the overall delinquency measure was approximately evenly distributed across all three late payment categories with the longest term delinquency category accounting for slightly more of the overall decline. The percentage of loans 90 or more days late fell 7 basis points to 0.83 percent, contributing about 40 percent of the overall decline. This is particularly heartening because the largest part of the decline in overall delinquencies since the peak in early 1985 has been in the shorter term categories. Loans delinquent 30 days and 60 days each fell by 5 basis points to 3.15 percent and 0.75 percent, respectively.

Delinquency rates declined for VA, FHA, and conventional loans but the bulk of the decrease was concentrated in the two government-backed categories. In the third quarter, delinquency rates for VA-guaranteed loans plummeted 39 basis points, from 6.41 percent to 6.02 percent—the largest quarterly drop in the VA delinquency rate in the history of the survey. Within this category, the largest decline occurred in loans 30 days past due, which fell 20 basis points to 3.94 percent. The delinquency rate for VA loans 90 days or more past due also experienced a significant decline, falling 13 basis points. Delinquency rates on FHA-insured loans also declined sharply, falling 30 basis points to 6.44 percent—the largest one quarter drop for this category in more than three years. The bulk of the decline within the FHA category was for loans three or more payments past due which declined 12 basis points to 1.11 percent. Delinquencies on conventional loans experienced a modest 2 basis point decline over the last three months with the delinquency rate on conventional loans falling to 2.91 percent.

TEXT NUMBERS ARE SEASONALLY ADJUSTED, UNLESS OTHERWISE NOTED.

On a regional basis, only the North Central region of the country reported a decline in the overall delinquency rate from a year earlier. (Regional data are not seasonally adjusted.) The delinquency rate in the North Central region fell 42 basis points over this 12 month period with the bulk of the decline in government-backed loans 30 days past due. There was no change in the overall delinquency rate in the Northeast from a year earlier. Compared to a year earlier, the overall delinquency rates in the South and West rose 4 basis points and 18 basis points, respectively.

After two quarters of no change, the rate of foreclosures started fell 1 basis point in the third quarter of 1988. The bulk of the decline over this three month period was in government-backed loans and was offset in part by an increase in foreclosures started on conventional loans. Furthermore, the drop in the overall rate of foreclosures started contributed to a decline for the second consecutive quarter in the percentage of loans in the process of foreclosure which fell 3 basis points to 1.00 percent. Declines were reported for all three loan types during the quarter with the largest drop in VA loans.

Following an uptick in the second quarter, the third quarter decline in the overall mortgage delinquency rate is welcome news. Further, declines in the more serious delinquency categories and reductions in both foreclosure measures are even more positive developments. However, these developments should be placed in perspective. After trending steadily downward from the beginning of 1985 through the third quarter of 1987, the overall delinquency rate has exhibited a see-saw pattern over the last five quarters and is now essentially the same as it was in the third quarter of 1987. Moreover, the overall delinquency rate was above the level of a year ago in both the South and the West. The economy is expected to continue to grow over the next year, with some further modest declines in the unemployment rate. Hopefully, a clear downward trend in the overall delinquency rate will reemerge.

DELINQUENCY RATES OF 1- TO 4-UNIT RESIDENTIAL MORTGAGE LOANS

Seasonally Adjusted

PERCENT OF LOANS

END OF QTR	ALL LOANS					CONVENTIONAL LOANS					VA LOANS					ALL FHA LOANS				
	Total Past Due	Installments Past Due: 30 Days	60 Days	90 Days or more	Fcls. started	Total Past Due	Installments Past Due: 30 Days	60 Days	90 Days or more	Fcls. started	Total Past Due	Installments Past Due: 30 Days	60 Days	90 Days or more	Fcls. started	Total Past Due	Installments Past Due: 30 Days	60 Days	90 Days or more	Fcls. started
1986																				
1st	5.72	3.79	0.96	0.97	0.24	4.01	2.70	0.65	0.66	0.18	6.66	4.34	1.15	1.17	0.27	7.42	4.91	1.25	1.26	0.30
2nd	5.64	3.68	0.95	1.05	0.25	3.92	2.57	0.64	0.71	0.18	6.65	4.27	1.12	1.26	0.29	7.30	4.78	1.21	1.33	0.31
3rd	5.50	3.58	0.90	1.01	0.26	3.73	2.47	0.59	0.67	0.20	6.60	4.22	1.10	1.28	0.31	7.07	4.61	1.17	1.29	0.32
4th	5.35	3.47	0.88	0.99	0.26	3.53	2.34	0.57	0.62	0.19	6.41	4.07	1.08	1.26	0.31	6.87	4.45	1.13	1.29	0.33
1987																				
1st	5.17	3.34	0.83	1.00	0.26	3.33	2.17	0.53	0.63	0.19	6.25	3.99	1.02	1.25	0.31	6.67	4.33	1.07	1.27	0.32
2nd	5.05	3.26	0.83	0.96	0.25	3.33	2.15	0.53	0.65	0.18	6.23	4.00	1.04	1.19	0.29	6.55	4.26	1.08	1.21	0.32
3rd	4.71	3.12	0.74	0.85	0.25	2.86	1.86	0.43	0.57	0.15	6.04	3.97	1.00	1.07	0.32	6.36	4.26	1.00	1.10	0.35
4th	4.95	3.25	0.80	0.90	0.27	3.06	2.04	0.46	0.56	0.16	6.32	4.06	1.08	1.18	0.35	6.67	4.39	1.10	1.18	0.36
1988																				
1st	4.78	3.19	0.74	0.85	0.27	2.84	1.91	0.41	0.52	0.17	6.15	4.07	0.99	1.09	0.33	6.54	4.36	1.03	1.15	0.36
2nd	4.90	3.20	0.80	0.90	0.27	2.93	1.97	0.44	0.52	0.16	6.41	4.14	1.06	1.21	0.33	6.74	4.37	1.14	1.23	0.37
3rd	4.73	3.15	0.75	0.83	0.26	2.91	1.95	0.43	0.53	0.17	6.02	3.94	1.00	1.08	0.32	6.44	4.28	1.05	1.11	0.35

MORTGAGE BANKERS ASSOCIATION OF AMERICA

STATE, AREA, AND CENSUS REGION	ALL LOANS							CONVENTIONAL LOANS						
	NUMBER OF LOANS SERVICED	PERCENT OF LOANS WITH INSTALLMENTS PAST DUE				PERCENT OF LOANS IN FORECLOSURE		NUMBER OF LOANS SERVICED	PERCENT OF LOANS WITH INSTALLMENTS PAST DUE				PERCENT OF LOANS IN FORECLOSURE	
		TOTAL PAST DUE	30 DAYS	60 DAYS	90 DAYS OR MORE	INVENTORY END OF QUARTER	STARTED DURING QUARTER		TOTAL PAST DUE	30 DAYS	60 DAYS	90 DAYS OR MORE	INVENTORY END OF QUARTER	STARTED DURING QUARTER
CONNECTICUT	181,212	3.09	2.33	0.45	0.31	0.18	0.07	164,490	2.87	2.18	0.40	0.29	0.13	0.06
MAINE	44,806	3.09	2.46	0.44	0.19	0.21	0.06	34,701	2.72	2.20	0.38	0.14	0.15	0.06
MASSACHUSETTS	133,674	2.97	2.36	0.38	0.23	0.17	0.10	114,800	2.63	2.13	0.34	0.16	0.15	0.09
NEW HAMPSHIRE	19,367	2.16	1.58	0.37	0.21	0.13	0.09	15,461	1.48	1.13	0.23	0.12	0.09	0.09
RHODE ISLAND	46,332	1.49	1.07	0.29	0.13	0.02	0.02	43,116	1.28	0.92	0.25	0.11	0.02	0.02
VERMONT	4,403	3.27	2.43	0.27	0.57	0.73	0.20	3,426	2.46	2.07	0.12	0.29	0.67	0.15
NEW ENGLAND	429,944	2.83	2.18	0.40	0.25	0.16	0.07	375,844	2.54	1.88	0.35	0.31	0.13	0.07
NEW JERSEY	243,297	3.91	2.84	0.57	0.50	0.67	0.10	167,888	2.18	1.68	0.30	0.20	0.28	0.05
NEW YORK	364,932	4.38	3.27	0.67	0.44	0.48	0.07	247,809	3.19	2.54	0.45	0.20	0.21	0.04
PENNSYLVANIA	292,319	5.64	3.79	0.94	1.11	1.47	0.21	162,472	3.24	2.20	0.49	0.55	0.47	0.09
MID-ATLANTIC	900,548	4.72	3.32	0.73	0.67	0.85	0.12	577,976	2.81	2.19	0.42	0.30	0.30	0.06
ILLINOIS	381,516	5.57	3.67	0.94	0.96	1.42	0.23	182,853	2.45	1.75	0.40	0.30	0.44	0.06
INDIANA	208,179	5.64	4.18	0.84	0.62	0.95	0.25	74,829	2.81	2.22	0.36	0.23	0.40	0.11
MICHIGAN	401,335	5.01	3.38	0.86	0.77	0.59	0.32	233,806	2.30	1.89	0.41	0.29	0.20	0.17
OHIO	344,770	5.09	3.48	0.82	0.79	1.18	0.26	142,139	2.42	1.74	0.33	0.35	0.54	0.11
WISCONSIN	78,063	4.43	2.81	0.75	0.87	1.01	0.25	37,741	2.58	1.72	0.44	0.42	0.37	0.12
E.N. CENTRAL	1,414,863	5.34	3.57	0.86	0.81	1.03	0.27	661,168	2.48	1.78	0.39	0.31	0.37	0.12
IOWA	41,889	4.39	2.85	0.78	0.76	1.42	0.31	12,036	2.89	2.02	0.50	0.37	0.79	0.23
KANSAS	74,816	4.67	3.15	0.85	0.67	1.19	0.35	33,788	3.48	2.48	0.55	0.45	1.02	0.30
MINNESOTA	279,550	3.41	2.31	0.54	0.56	1.06	0.32	113,287	2.18	1.61	0.34	0.23	0.96	0.30
MISSOURI	133,237	5.47	3.59	0.93	0.95	0.56	0.26	46,721	2.14	1.44	0.31	0.39	0.26	0.12
NEBRASKA	78,995	3.48	2.24	0.63	0.61	0.71	0.19	42,340	2.32	1.57	0.40	0.35	0.50	0.14
NORTH DAKOTA	9,063	4.15	2.34	0.65	1.16	2.65	0.68	1,300	2.57	1.32	0.44	0.81	2.87	0.58
SOUTH DAKOTA	10,254	2.42	1.54	0.34	0.54	0.98	0.22	3,145	1.58	1.02	0.19	0.38	0.51	0.13
W.N. CENTRAL	627,704	4.07	2.70	0.69	0.68	0.97	0.30	252,588	2.40	1.70	0.38	0.32	0.76	0.23
DELAWARE	33,182	3.22	2.34	0.54	0.34	0.33	0.06	20,858	1.68	1.22	0.29	0.17	0.17	0.05
D.C.	20,966	7.07	4.66	1.12	1.29	1.73	0.31	8,023	3.79	2.67	0.57	0.55	0.79	0.10
FLORIDA	593,550	4.34	3.09	0.72	0.54	1.24	0.23	275,971	2.63	1.91	0.40	0.32	1.12	0.22
GEORGIA	262,042	5.15	3.45	0.84	0.86	0.66	0.20	85,070	2.33	1.60	0.38	0.35	0.43	0.11
MARYLAND	255,272	4.06	2.81	0.65	0.60	0.57	0.15	87,007	2.01	1.58	0.24	0.19	0.26	0.09
N.C.	211,062	4.40	3.16	0.67	0.57	0.54	0.14	81,188	1.93	1.40	0.28	0.25	0.29	0.06
S.C.	111,334	5.98	4.08	0.99	0.91	1.25	0.29	23,362	2.61	1.84	0.33	0.44	0.76	0.23
VIRGINIA	405,916	3.75	2.73	0.60	0.42	0.37	0.10	143,006	2.46	1.94	0.36	0.16	0.14	0.03
W. VIRGINIA	23,000	5.10	3.12	1.28	0.70	1.14	0.17	12,852	3.60	2.26	0.99	0.35	0.61	0.17
S. ATLANTIC	1,916,344	4.41	3.09	0.72	0.60	0.80	0.18	727,337	2.43	1.79	0.37	0.27	0.61	0.13
ALABAMA	162,934	4.97	3.30	0.89	0.78	0.46	0.26	40,620	2.37	1.68	0.43	0.26	0.38	0.16
KENTUCKY	67,802	4.50	3.20	0.73	0.57	0.67	0.15	18,460	2.05	1.51	0.37	0.17	0.49	0.11
MISSISSIPPI	53,302	6.30	4.27	1.02	1.01	1.01	0.27	14,129	3.96	2.68	0.47	0.81	0.88	0.18
TENNESSEE	160,715	6.17	3.85	1.00	1.32	0.66	0.23	43,226	2.53	1.78	0.38	0.37	0.20	0.09
E.S. CENTRAL	444,753	5.49	3.60	0.82	0.97	0.63	0.23	116,435	2.58	1.81	0.41	0.36	0.39	0.13
ARKANSAS	40,093	5.64	3.70	0.86	1.08	1.11	0.25	6,902	2.73	1.76	0.36	0.61	1.02	0.16
LOUISIANA	142,049	6.29	4.13	1.08	1.08	1.70	0.35	49,722	3.86	2.33	0.70	0.83	1.83	0.33
OKLAHOMA	111,623	6.89	3.79	1.25	1.85	4.48	0.82	30,572	4.49	2.45	0.75	1.29	4.37	0.64
TEXAS	776,749	6.94	3.85	1.12	1.97	1.68	0.49	294,490	5.98	2.61	0.76	2.61	1.32	0.50
W.S. CENTRAL	1,070,514	6.81	3.88	1.12	1.81	1.84	0.50	381,776	5.53	2.54	0.75	2.24	1.62	0.48
ARIZONA	265,232	5.58	3.66	0.96	0.96	1.39	0.40	84,863	3.14	2.14	0.45	0.55	1.15	0.22
COLORADO	265,494	5.28	3.05	0.97	1.26	2.71	0.65	89,203	3.64	2.07	0.68	0.88	1.44	0.31
IDAHO	68,858	5.32	3.57	0.78	0.97	1.35	0.47	25,832	2.97	2.02	0.44	0.51	0.74	0.23
MONTANA	25,277	4.85	2.91	0.84	1.10	2.73	0.64	2,523	2.58	1.47	0.16	0.95	1.70	0.32
NEVADA	94,081	5.34	3.61	0.80	0.93	1.52	0.28	18,127	3.40	2.35	0.44	0.61	1.06	0.14
NEW MEXICO	53,733	3.99	2.66	0.64	0.67	1.17	0.27	20,862	3.76	2.54	0.56	0.66	1.35	0.29
UTAH	98,335	9.13	6.24	1.36	1.53	1.84	0.60	33,523	5.68	3.87	0.77	1.05	1.55	0.33
WYOMING	12,192	5.35	3.08	0.78	1.49	2.95	0.68	2,080	3.83	2.06	0.38	1.39	2.61	0.19
MOUNTAIN	923,202	5.71	3.65	0.95	1.11	1.90	0.50	354,023	3.70	2.37	0.58	0.75	1.29	0.27
ALASKA	49,021	15.48	7.32	2.44	5.72	5.18	1.73	30,546	11.94	4.34	1.62	5.98	4.65	1.47
CALIFORNIA	1,563,419	3.41	2.42	0.53	0.46	0.58	0.15	907,721	1.81	1.38	0.26	0.17	0.38	0.08
HAWAII	73,911	2.70	1.85	0.45	0.40	0.31	0.09	40,919	2.34	1.60	0.35	0.39	0.21	0.06
OREGON	109,787	2.77	1.93	0.41	0.43	0.79	0.15	56,849	2.07	1.42	0.27	0.38	0.60	0.10
WASHINGTON	301,079	3.56	2.40	0.55	0.61	0.91	0.21	122,095	1.93	1.32	0.31	0.30	0.47	0.12
PACIFIC	2,097,217	3.65	2.48	0.57	0.60	0.73	0.19	1,057,130	2.16	1.47	0.31	0.38	0.52	0.13
PUERTO RICO	130,074	8.29	5.42	1.50	1.37	0.87	0.52	39,995	8.54	5.64	1.53	1.37	1.23	0.76
NORTHEAST	1,330,512	4.12	2.86	0.62	0.54	0.63	0.11	952,820	2.77	2.11	0.39	0.27	0.23	0.06
NORTH CENTRAL	2,042,566	4.88	3.30	0.81	0.77	1.01	0.28	933,757	2.45	1.76	0.38	0.31	0.47	0.15
SOUTH	3,431,611	6.29	3.40	0.87	1.02	1.13	0.28	1,225,548	3.40	2.60	0.48	0.89	0.81	0.24
WEST	3,020,419	4.38	2.84	0.69	0.75	1.08	0.29	1,311,183	2.45	1.64	0.36	0.45	0.87	0.16
U.S. TOTAL	10,767,838	4.75	3.17	0.77	0.81	1.00	0.26	5,013,281	2.81	1.87	0.43	0.51	0.59	0.17
U.S. TOTAL (S.A.)	*NC*	*4.73*	*3.15*	*0.75*	*0.83*	*NC*	*0.26*	*NC*	*2.81*	*1.85*	*0.43*	*0.53*	*NC*	*0.17*

NATIONAL DELINQUENCY SURVEY OF 1- TO 4-UNIT RESIDENTIAL MORTGAGE LOANS

STATE, AREA, AND CENSUS REGION	VA LOANS						
	NUMBER OF LOANS SERVICED	PERCENT OF LOANS WITH INSTALLMENTS PAST DUE				PERCENT OF LOANS IN FORECLOSURE	
		TOTAL PAST DUE	30 DAYS	60 DAYS	90 DAYS OR MORE	INVENTORY END OF QUARTER	STARTED DURING QUARTER
CONNECTICUT	7,048	4.54	3.26	0.81	0.47	0.26	0.10
MAINE	6,248	4.13	3.25	0.56	0.32	0.22	0.03
MASSACHUSETTS	9,945	4.36	3.31	0.54	0.51	0.20	0.19
NEW HAMPSHIRE	1,870	5.62	3.64	1.23	0.75	0.32	0.11
RHODE ISLAND	668	5.84	4.04	1.20	0.60	0.00	0.00
VERMONT	487	4.72	2.67	0.21	1.84	1.03	0.00
NEW ENGLAND	26,266	4.40	3.32	0.68	0.40	0.25	0.11
NEW JERSEY	28,537	7.29	5.06	1.12	1.11	1.32	0.16
NEW YORK	33,545	6.33	4.64	0.99	0.70	0.81	0.11
PENNSYLVANIA	40,476	8.87	5.49	1.35	2.03	2.17	0.34
MID-ATLANTIC	102,558	7.60	5.09	1.17	1.34	1.49	0.22
ILLINOIS	80,861	8.51	5.39	1.48	1.64	2.31	0.42
INDIANA	30,030	7.34	5.34	1.19	0.81	1.26	0.33
MICHIGAN	48,809	7.57	5.04	1.18	1.35	0.78	0.40
OHIO	84,324	6.91	4.67	1.11	1.13	1.56	0.32
WISCONSIN	17,421	6.33	3.82	1.14	1.37	1.57	0.37
E.N. CENTRAL	261,454	7.46	4.88	1.33	1.25	1.63	0.36
IOWA	12,470	5.22	3.17	0.93	1.12	1.72	0.32
KANSAS	18,738	6.15	3.94	1.19	1.02	1.24	0.43
MINNESOTA	54,111	4.78	3.05	0.60	0.83	0.67	0.30
MISSOURI	25,672	5.90	3.94	1.01	0.95	0.66	0.26
NEBRASKA	15,847	4.14	2.63	0.73	0.78	1.07	0.26
NORTH DAKOTA	898	4.45	2.67	0.56	1.22	3.12	0.56
SOUTH DAKOTA	2,318	3.76	2.29	0.52	0.95	1.21	0.30
W.N. CENTRAL	130,054	5.13	3.29	0.89	0.95	0.99	0.32
DELAWARE	4,413	5.81	4.21	0.87	0.73	0.61	0.16
D.C.	4,828	8.79	5.68	1.49	1.62	1.66	0.33
FLORIDA	124,061	5.32	3.71	0.89	0.72	1.32	0.22
GEORGIA	85,058	6.33	4.16	1.04	1.13	0.71	0.22
MARYLAND	61,098	5.39	3.64	0.97	0.78	0.72	0.17
N.C.	72,935	5.39	3.82	0.85	0.72	0.70	0.21
S.C.	38,248	6.10	4.14	1.02	0.94	1.05	0.29
VIRGINIA	139,507	4.30	3.04	0.73	0.53	0.44	0.11
W. VIRGINIA	5,529	8.80	5.17	2.30	1.41	2.35	0.25
S. ATLANTIC	535,677	5.36	3.68	0.91	0.77	0.83	0.19
ALABAMA	53,414	5.19	3.44	0.98	0.77	0.44	0.29
KENTUCKY	17,603	5.28	3.64	0.94	0.70	0.74	0.15
MISSISSIPPI	14,451	6.13	4.24	0.99	0.90	0.86	0.22
TENNESSEE	35,819	7.06	4.46	1.15	1.45	0.52	0.21
E.S. CENTRAL	121,287	5.87	3.86	1.03	0.98	0.56	0.24
ARKANSAS	11,678	6.25	4.01	0.96	1.28	1.05	0.34
LOUISIANA	36,842	6.37	4.31	1.03	1.03	1.27	0.28
OKLAHOMA	28,121	7.47	4.20	1.36	1.91	4.27	0.86
TEXAS	197,528	7.84	4.77	1.37	1.70	1.98	0.42
W.S. CENTRAL	274,169	7.54	4.62	1.31	1.61	2.06	0.44
ARIZONA	67,858	6.30	4.00	1.12	1.18	1.21	0.41
COLORADO	75,535	5.94	3.44	1.07	1.43	2.32	0.63
IDAHO	15,842	6.13	4.08	0.86	1.19	1.48	0.64
MONTANA	6,365	5.12	3.14	1.02	0.96	1.71	0.39
NEVADA	24,668	5.49	3.65	0.78	1.06	1.37	0.26
NEW MEXICO	11,593	4.31	2.82	0.70	0.79	1.17	0.27
UTAH	17,185	10.55	7.07	1.66	1.82	1.93	0.76
WYOMING	4,337	5.81	3.11	0.92	1.78	3.39	0.53
MOUNTAIN	223,383	6.26	3.81	1.06	1.29	1.73	0.81
ALASKA	7,987	19.38	10.27	2.62	6.49	3.92	2.23
CALIFORNIA	279,935	4.96	3.36	0.79	0.81	0.71	0.16
HAWAII	11,727	3.61	2.45	0.60	0.56	0.61	0.16
OREGON	10,899	3.81	2.66	0.66	0.49	0.90	0.26
WASHINGTON	56,517	5.00	3.35	0.78	0.87	1.44	0.29
PACIFIC	367,065	5.21	3.46	0.82	0.93	0.89	0.25
PUERTO RICO	13,504	7.89	4.98	1.58	1.13	0.65	0.33
NORTHEAST	128,824	6.97	4.73	1.07	1.17	1.24	0.20
NORTH CENTRAL	391,508	6.69	4.42	1.12	1.15	1.38	0.36
SOUTH	931,133	6.07	3.89	1.04	1.08	1.16	0.27
WEST	590,438	5.60	3.63	0.91	1.06	1.21	0.34
U.S. TOTAL	2,150,072	6.10	4.01	1.03	1.07	1.30	0.30
U.S. TOTAL (S.A.)	*NC*	*6.02*	*3.94*	*1.00*	*1.08*	*NC*	*0.32*

STATE, AREA, AND CENSUS REGION	ALL FHA LOANS						
	NUMBER OF LOANS SERVICED	PERCENT OF LOANS WITH INSTALLMENTS PAST DUE				PERCENT OF LOANS IN FORECLOSURE	
		TOTAL PAST DUE	30 DAYS	60 DAYS	90 DAYS OR MORE	INVENTORY END OF QUARTER	STARTED DURING QUARTER
CONNECTICUT	9,674	5.67	4.16	0.94	0.57	0.48	0.20
MAINE	4,007	4.64	3.49	0.75	0.40	0.70	0.15
MASSACHUSETTS	9,079	5.82	4.23	0.79	0.80	0.40	0.14
NEW HAMPSHIRE	2,006	4.13	3.11	0.63	0.39	0.29	0.06
RHODE ISLAND	2,546	3.66	2.75	0.67	0.24	0.04	0.04
VERMONT	490	7.35	4.49	1.43	1.43	0.82	0.82
NEW ENGLAND	27,864	5.30	3.88	0.83	0.60	0.43	0.16
NEW JERSEY	47,065	8.00	5.61	1.20	1.19	1.74	0.21
NEW YORK	83,578	7.12	4.91	1.19	1.02	1.18	0.14
PENNSYLVANIA	89,371	8.19	5.93	1.57	1.69	2.95	0.36
MID-ATLANTIC	220,014	8.14	5.47	1.34	1.33	2.02	0.25
ILLINOIS	127,902	8.66	5.73	1.30	1.63	2.49	0.40
INDIANA	84,310	7.13	5.22	1.07	0.84	1.28	0.32
MICHIGAN	118,920	9.09	6.02	1.60	1.47	1.26	0.59
OHIO	118,307	6.99	4.71	1.21	1.07	1.66	0.39
WISCONSIN	22,901	6.06	3.84	0.98	1.24	1.63	0.36
E.N. CENTRAL	472,240	6.81	5.37	1.36	1.29	1.72	0.43
IOWA	17,481	4.85	3.20	0.87	0.78	1.65	0.36
KANSAS	22,090	5.27	3.53	1.02	0.72	1.42	0.36
MINNESOTA	112,142	4.01	2.86	0.63	0.72	1.24	0.35
MISSOURI	60,844	7.84	5.09	1.38	1.37	0.79	0.37
NEBRASKA	20,908	5.35	3.31	1.04	1.00	0.84	0.21
NORTH DAKOTA	6,806	4.43	2.50	0.71	1.22	2.54	0.72
SOUTH DAKOTA	4,791	2.31	1.52	0.35	0.44	1.19	0.25
W.N. CENTRAL	245,061	5.23	3.41	0.90	0.92	1.18	0.36
DELAWARE	7,910	5.76	4.25	0.97	0.56	0.61	0.11
D.C.	8,135	9.28	6.01	1.44	1.83	2.72	0.52
FLORIDA	183,510	6.13	4.33	1.06	0.74	1.37	0.25
GEORGIA	91,914	6.64	4.49	1.07	1.08	0.82	0.26
MARYLAND	97,167	5.29	3.52	0.87	0.80	0.79	0.19
N.C.	78,939	5.45	3.95	0.81	0.69	0.56	0.15
S.C.	49,724	7.47	5.08	1.28	1.11	1.63	0.32
VIRGINIA	123,404	4.63	3.28	0.74	0.61	0.55	0.15
W. VIRGINIA	4,619	4.74	3.07	0.87	0.80	1.17	0.09
S. ATLANTIC	663,320	5.84	4.06	0.96	0.82	0.99	0.23
ALABAMA	66,900	6.34	4.16	1.10	1.08	0.54	0.30
KENTUCKY	31,730	5.51	3.95	0.83	0.73	0.73	0.16
MISSISSIPPI	34,722	7.74	5.19	1.36	1.19	1.18	0.23
TENNESSEE	81,670	7.70	4.67	1.27	1.76	0.97	0.30
E.S. CENTRAL	207,031	6.92	4.45	1.16	1.31	0.81	0.27
ARKANSAS	21,423	6.26	4.16	0.98	1.12	1.19	0.22
LOUISIANA	55,465	8.42	5.63	1.45	1.34	1.69	0.42
OKLAHOMA	52,930	7.96	4.35	1.47	2.14	4.61	0.90
TEXAS	284,731	7.22	4.50	1.32	1.50	1.80	0.53
W.S. CENTRAL	414,569	7.58	4.62	1.34	1.64	2.13	0.55
ARIZONA	152,511	6.20	4.16	1.11	1.03	1.57	0.48
COLORADO	120,756	6.09	3.54	1.11	1.44	3.85	0.93
IDAHO	27,164	7.08	4.75	1.05	1.29	1.86	0.61
MONTANA	16,309	5.10	3.04	0.90	1.16	3.28	0.79
NEVADA	54,206	5.82	3.95	0.91	0.96	1.73	0.32
NEW MEXICO	21,276	4.06	2.75	0.69	0.62	1.01	0.25
UTAH	47,627	11.05	7.62	1.66	1.77	2.02	0.73
WYOMING	5,765	5.57	3.43	0.82	1.32	2.97	0.97
MOUNTAIN	445,796	6.58	4.25	1.11	1.22	2.34	0.82
ALASKA	10,468	22.84	13.77	4.68	4.39	7.70	2.09
CALIFORNIA	475,773	5.20	3.63	0.84	0.73	0.83	0.23
HAWAII	21,265	2.87	1.99	0.56	0.32	0.34	0.09
OREGON	43,039	3.41	2.41	0.53	0.47	1.02	0.19
WASHINGTON	122,467	4.51	3.03	0.69	0.79	1.10	0.27
PACIFIC	673,032	5.16	3.55	0.84	0.77	0.86	0.26
PUERTO RICO	76,575	8.29	5.39	1.47	1.42	0.72	0.43
NORTHEAST	247,868	7.83	5.29	1.29	1.25	1.84	0.24
NORTH CENTRAL	717,301	7.86	4.70	1.20	1.16	1.53	0.40
SOUTH	1,274,330	6.85	4.30	1.12	1.13	1.33	0.23
WEST	1,118,828	5.73	3.80	0.96	0.96	1.52	0.40
U.S. TOTAL	3,604,573	6.90	4.33	1.09	1.08	1.44	0.36
U.S. TOTAL (S.A.)	*NC*	*6.44*	*4.20*	*1.05*	*1.11*	*NC*	*0.35*

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DATA ON 1- TO 4-UNIT RESIDENTIAL MORTGAGE LOANS AS OF SEPTEMBER 30, 1988 AND FOR 3rd QUARTER 1988

STATE, AREA, AND CENSUS REGION	FHA 235 and 237 LOANS							FHA 245 LOANS						
	NUMBER OF LOANS SERVICED	PERCENT OF LOANS WITH INSTALLMENTS PAST DUE				PERCENT OF LOANS IN FORECLOSURE		NUMBER OF LOANS SERVICED	PERCENT OF LOANS WITH INSTALLMENTS PAST DUE				PERCENT OF LOANS IN FORECLOSURE	
		TOTAL PAST DUE	30 DAYS	60 DAYS	90 DAYS OR MORE	INVENTORY END OF QUARTER	STARTED DURING QUARTER		TOTAL PAST DUE	30 DAYS	60 DAYS	90 DAYS OR MORE	INVENTORY END OF QUARTER	STARTED DURING QUARTER
CONNECTICUT	184	21.19	16.30	3.26	1.63	1.09	0.00	102	24.51	20.59	2.94	0.98	1.96	0.98
MAINE	149	13.42	8.40	4.03	0.00	0.00	0.00	0	0.00	0.00	0.00	0.00	0.00	0.00
MASSACHUSETTS	120	4.16	2.50	0.83	0.83	0.00	0.00	120	5.00	5.00	0.00	0.00	0.00	0.00
NEW HAMPSHIRE	115	3.48	2.61	0.00	0.87	0.00	0.00	11	9.09	0.00	0.00	0.00	0.00	0.00
RHODE ISLAND	56	5.37	1.79	1.79	1.79	0.00	0.00	115	0.00	0.00	0.00	0.00	0.00	0.00
VERMONT	31	3.23	3.23	0.00	0.00	0.00	0.00	100	4.00	3.00	1.00	0.00	1.00	0.00
NEW ENGLAND	655	11.00	7.94	2.14	0.92	0.31	0.00	448	7.81	6.70	0.89	0.22	0.67	0.22
NEW JERSEY	630	13.84	9.88	1.90	2.06	1.75	0.00	849	7.42	3.77	1.18	2.47	1.06	0.12
NEW YORK	292	9.59	6.51	2.05	1.03	0.34	0.34	110	16.36	8.18	2.73	5.45	1.82	0.91
PENNSYLVANIA	1,062	11.77	7.53	2.07	2.17	2.45	0.47	450	11.11	5.78	1.33	4.00	2.89	0.44
MID-ATLANTIC	1,984	12.05	8.06	2.02	1.97	1.92	0.30	1,409	9.30	4.76	1.35	3.19	1.70	0.28
ILLINOIS	1,501	13.85	8.79	2.66	2.40	2.73	0.87	3,390	8.73	5.19	1.53	2.01	2.68	0.32
INDIANA	656	14.63	10.06	2.74	1.83	1.83	0.15	659	8.65	5.16	1.67	1.82	2.88	0.61
MICHIGAN	3,202	12.39	8.74	1.84	1.81	1.25	0.50	780	10.52	7.18	1.67	1.67	1.28	0.26
OHIO	2,177	12.81	8.22	2.02	2.57	2.20	0.46	792	6.32	3.16	0.76	2.40	2.90	0.38
WISCONSIN	387	10.59	6.20	2.58	1.81	2.07	0.78	965	6.53	4.04	0.83	1.66	1.55	0.31
E.N. CENTRAL	7,923	12.89	8.56	2.20	2.13	1.88	0.54	6,587	8.32	5.01	1.37	1.94	2.40	0.35
IOWA	717	9.34	5.30	2.23	1.81	1.53	0.14	1,212	5.20	2.97	1.32	0.91	2.06	0.41
KANSAS	351	11.68	6.84	3.99	0.85	5.13	0.00	464	6.25	4.31	1.08	0.86	1.51	0.65
MINNESOTA	563	9.41	5.33	2.84	1.24	1.78	0.00	1,656	8.33	4.65	1.63	2.05	5.74	0.48
MISSOURI	1,188	24.49	20.45	2.27	1.77	0.76	0.42	564	7.27	4.43	1.95	0.89	1.42	0.53
NEBRASKA	1,399	9.09	4.72	2.22	2.15	0.50	0.07	279	3.95	2.51	1.08	0.36	0.72	0.00
NORTH DAKOTA	81	13.58	4.94	2.47	6.17	1.23	0.00	35	8.57	2.86	0.00	5.71	11.43	0.00
SOUTH DAKOTA	66	6.07	4.55	1.52	0.00	0.00	0.00	65	3.08	3.08	0.00	0.00	0.00	0.00
W.N. CENTRAL	4,364	13.61	9.36	2.45	1.81	1.28	0.16	4,274	6.71	3.93	1.45	1.33	3.30	0.44
DELAWARE	136	11.03	8.09	1.47	1.47	0.00	0.00	1	0.00	0.00	0.00	0.00	0.00	0.00
D.C.	94	5.32	3.19	0.00	2.13	4.26	0.00	51	21.57	15.69	1.96	3.92	7.84	0.00
FLORIDA	3,799	10.60	7.58	1.76	1.26	1.55	0.13	1,920	8.65	5.63	1.61	1.41	5.00	0.52
GEORGIA	3,191	8.37	5.67	1.38	1.32	0.38	0.06	1,791	9.32	5.92	1.84	1.56	3.85	0.11
MARYLAND	124	15.33	8.87	0.81	5.65	0.00	0.00	1,798	8.17	4.89	1.72	1.56	1.33	0.00
N.C.	1,439	14.45	9.39	2.84	2.22	1.46	0.42	1,124	9.97	7.30	1.60	1.07	3.29	0.00
S.C.	1,157	11.32	7.26	2.59	1.47	1.47	0.26	427	11.72	7.73	2.58	1.41	12.41	0.00
VIRGINIA	1,844	13.83	8.79	3.36	1.68	1.30	0.38	2,822	8.75	5.63	1.74	1.38	1.52	0.21
W. VIRGINIA	51	5.88	1.96	1.96	1.96	7.84	1.96	469	4.05	2.77	0.85	0.43	0.00	0.00
S. ATLANTIC	11,835	11.04	7.43	2.07	1.54	1.19	0.20	10,403	8.83	5.74	1.71	1.38	3.13	0.17
ALABAMA	2,947	13.50	8.82	1.97	2.71	1.09	0.48	1,540	7.46	4.48	1.75	1.23	0.52	0.00
KENTUCKY	1,850	8.43	5.84	1.62	0.97	0.70	0.05	161	8.07	4.35	2.48	1.24	1.24	0.00
MISSISSIPPI	1,072	14.83	8.86	2.80	3.17	1.49	0.09	122	5.74	4.10	1.64	0.00	5.74	0.00
TENNESSEE	2,533	16.30	10.46	2.88	2.96	1.30	0.12	1,080	9.91	5.37	2.04	2.50	1.48	0.65
E.S. CENTRAL	8,402	13.39	8.66	2.27	2.46	1.12	0.23	2,903	8.33	4.79	1.89	1.65	1.14	0.24
ARKANSAS	326	11.96	7.36	1.23	3.37	3.37	0.00	38	5.26	2.63	2.63	0.00	5.26	2.63
LOUISIANA	3,664	13.40	9.25	2.27	1.88	1.47	0.63	417	9.60	5.28	3.12	1.20	9.83	0.24
OKLAHOMA	1,061	11.50	5.66	1.41	4.43	4.05	0.57	944	13.14	5.51	2.86	4.77	11.12	2.01
TEXAS	4,765	14.08	9.38	2.14	2.56	1.39	0.67	4,368	11.90	6.27	2.15	3.48	7.90	1.17
W.S. CENTRAL	9,816	13.48	8.86	2.08	2.54	1.77	0.62	5,767	11.88	6.05	2.34	3.50	8.55	1.25
ARIZONA	1,769	13.23	8.82	2.32	2.09	2.60	0.34	3,546	10.19	6.66	1.78	1.75	3.44	0.76
COLORADO	963	7.27	5.09	1.45	0.73	1.04	0.52	4,895	8.40	4.72	1.51	2.17	4.25	0.61
IDAHO	1,673	12.91	8.31	2.09	2.51	2.63	0.36	1,360	9.78	5.22	1.32	3.24	2.28	0.81
MONTANA	368	12.22	6.25	2.17	3.80	2.99	1.90	390	9.74	4.10	2.31	3.33	3.08	1.28
NEVADA	389	9.52	6.17	1.29	2.06	3.86	0.51	682	7.62	5.28	1.17	1.17	4.69	0.88
NEW MEXICO	1,069	8.88	5.33	1.87	1.68	0.65	0.19	394	6.60	4.82	1.27	0.51	0.25	0.00
UTAH	2,060	31.26	22.67	4.37	4.22	3.01	1.94	2,618	19.90	12.91	3.48	3.51	3.67	1.53
WYOMING	72	5.56	4.17	0.00	1.39	4.17	2.78	86	2.32	1.16	0.00	1.16	3.49	0.00
MOUNTAIN	8,363	16.09	10.98	2.55	2.56	2.27	0.84	13,871	11.06	6.79	1.92	2.35	3.61	0.85
ALASKA	598	66.06	50.84	10.37	4.85	1.00	4.52	329	65.04	42.25	13.37	9.42	5.47	0.30
CALIFORNIA	3,882	14.09	9.14	2.37	2.58	2.68	0.21	15,547	6.91	4.57	1.18	1.16	1.50	0.23
HAWAII	172	8.14	3.49	3.49	1.16	0.00	0.00	269	4.09	2.97	0.00	1.12	0.37	0.00
OREGON	916	9.61	6.44	1.97	1.20	2.18	0.00	861	7.55	4.99	1.28	1.28	3.83	0.23
WASHINGTON	2,273	10.03	5.85	1.80	2.38	2.11	0.22	1,513	7.60	4.82	1.06	1.72	3.24	0.40
PACIFIC	7,841	16.22	10.93	2.79	2.50	2.27	0.51	18,519	7.99	5.25	1.38	1.36	1.80	0.24
PUERTO RICO	4,397	14.71	9.39	2.68	2.64	1.07	1.05	0	0.00	0.00	0.00	0.00	0.00	0.00
NORTHEAST	2,639	11.79	8.03	2.05	1.71	1.82	0.23	1,857	8.94	5.22	1.24	2.48	1.45	0.27
NORTH CENTRAL	12,287	13.15	8.84	2.29	2.02	1.67	0.41	10,861	7.69	4.59	1.40	1.70	2.75	0.39
SOUTH	30,053	12.49	8.24	2.13	2.12	1.36	0.35	19,073	9.49	5.59	1.83	2.07	4.47	0.51
WEST	16,204	16.15	10.95	2.67	2.53	2.22	0.68	32,490	9.20	5.81	1.61	1.78	2.58	0.50
U.S. TOTAL	82,047	12.03	8.02	2.03	1.98	1.29	0.52	65,474	9.13	5.59	1.66	1.88	3.11	0.48
U.S. TOTAL (S.A.)	*NC*	*11.98*	*8.03*	*1.99*	*1.96*	*NC*	*0.53*	*NC*	*N.A.*	*N.A.*	*N.A.*	*N.A.*	*NC*	*N.A.*

MORTGAGE BANKERS ASSOCIATION OF AMERICA

NATIONAL DELINQUENCY SURVEY OF 1- TO 4-UNIT RESIDENTIAL MORTGAGE LOANS
SEPTEMBER 30, 1988

CENSUS REGION	PERCENT OF LOANS WITH INSTALLMENTS PAST DUE														PERCENT OF LOANS IN FORECLOSURE STARTED DURING QUARTER		
	TOTAL PAST DUE			30 DAYS			60 DAYS			90 DAYS OR MORE			90 DAYS OR MORE (S.A.)				
		CHANGE FROM			CHANGE FROM			CHANGE FROM			CHANGE FROM			CHANGE FROM		CHANGE FROM	
	CURR. QTR.	YR. AGO	QTR. AGO	CURR. QTR.	YR. AGO	QTR. AGO	CURR. QTR.	YR. AGO	QTR. AGO	CURR. QTR.	YR. AGO	QTR. AGO	CURR. QTR.	QTR. AGO	CURR. QTR.	YR. AGO	QTR. AGO
CONVENTIONAL LOANS																	
Northeast	2.77	(0.06)	0.24	2.11	0.00	0.17	0.39	(0.05)	0.04	0.27	0.00	0.03	0.28	(0.01)	0.06	(0.02)	0.01
North Central	2.45	(0.22)	0.03	1.78	(0.12)	(0.01)	0.36	(0.04)	0.02	0.31	(0.06)	0.02	0.31	0.00	0.15	(0.01)	(0.01)
South	3.40	0.01	(0.08)	2.02	0.01	(0.07)	0.49	(0.02)	0.02	0.89	0.02	0.00	0.96	0.06	0.24	0.04	0.00
West	2.45	0.10	0.12	1.64	0.14	0.09	0.36	0.00	0.02	0.45	(0.04)	0.01	0.45	(0.03)	0.16	0.02	0.01
U.S. Total	2.91	0.04	0.15	1.97	0.08	0.10	0.43	(0.01)	0.04	0.51	(0.04)	0.01	—	—	0.17	0.02	0.01
U.S. Total (S.A.)	*2.91*	—	*(0.02)*	*1.96*	—	*(0.02)*	*0.43*	—	*(0.01)*	*0.53*	—	*0.01*	*0.53*	*0.01*	*0.17*	—	*0.01*
VA LOANS																	
Northeast	6.97	(0.25)	0.41	4.73	(0.20)	0.32	1.07	(0.03)	0.09	1.17	(0.02)	(0.01)	1.21	(0.12)	0.20	(0.04)	0.02
North Central	6.69	(0.41)	0.08	4.42	(0.23)	0.06	1.12	(0.06)	0.06	1.15	(0.12)	(0.03)	1.13	(0.17)	0.35	(0.02)	0.00
South	6.07	0.01	0.16	3.96	(0.03)	0.11	1.04	0.01	0.06	1.06	0.03	(0.03)	1.11	(0.10)	0.27	(0.03)	(0.06)
West	5.60	0.18	0.37	3.63	0.07	0.26	0.91	0.03	0.09	1.06	0.08	0.02	1.11	(0.01)	0.34	0.04	0.03
U.S. Total	6.10	(0.01)	0.21	4.01	(0.03)	0.15	1.02	0.00	0.08	1.07	0.02	(0.02)	—	—	0.30	0.00	(0.01)
U.S. Total (S.A.)	*6.02*	—	*(0.38)*	*3.94*	—	*(0.20)*	*1.00*	—	*(0.06)*	*1.08*	—	*(0.13)*	*1.08*	*(0.13)*	*0.32*	—	*(0.01)*
ALL FHA LOANS																	
Northeast	7.83	0.04	0.36	5.29	(0.01)	0.37	1.29	0.06	0.13	1.25	(0.01)	(0.14)	1.29	(0.25)	0.24	(0.05)	0.01
North Central	7.06	(0.27)	0.17	4.70	(0.19)	0.09	1.20	0.01	0.10	1.16	(0.09)	(0.02)	1.16	(0.16)	0.40	(0.08)	0.02
South	6.55	0.06	0.20	4.30	(0.05)	0.12	1.12	0.06	0.10	1.13	0.05	(0.02)	1.22	(0.03)	0.33	(0.02)	0.00
West	5.73	0.24	0.33	3.83	0.17	0.26	0.95	0.06	0.08	0.95	(0.01)	(0.03)	0.97	(0.10)	0.40	0.07	0.04
U.S. Total	6.50	0.07	0.25	4.33	0.02	0.20	1.09	0.06	0.08	1.08	0.00	(0.03)	—	—	0.36	0.01	0.01
U.S. Total (S.A.)	*6.44*	—	*(0.30)*	*4.28*	—	*(0.09)*	*1.05*	—	*(0.08)*	*1.11*	—	*(0.12)*	*1.11*	*(0.12)*	*0.35*	—	*(0.02)*
FHA LOANS (excluding 235 and 237)																	
Northeast	7.81	(0.14)	0.15	5.27	(0.13)	0.27	1.27	0.01	0.08	1.27	(0.02)	(0.20)	1.30	(0.35)	0.29	(0.05)	0.05
North Central	7.08	(0.28)	0.08	4.64	(0.19)	0.03	1.20	0.01	0.06	1.24	(0.10)	(0.01)	1.25	(0.12)	0.41	(0.13)	0.00
South	6.26	0.20	0.09	4.14	0.07	0.05	1.06	0.06	0.06	1.06	0.07	(0.04)	1.14	(0.06)	0.31	0.02	0.04
West	5.25	(0.16)	(0.20)	3.51	(0.10)	(0.05)	0.86	0.01	(0.02)	0.88	(0.07)	(0.13)	0.92	(0.19)	0.38	0.09	0.02
U.S. Total	6.27	(0.02)	0.01	4.16	(0.04)	0.04	1.05	0.03	0.04	1.06	(0.01)	(0.07)	—	—	0.35	0.01	0.02
U.S. Total (S.A.)	*6.23*	—	*(0.49)*	*4.13*	—	*(0.21)*	*1.01*	—	*(0.13)*	*1.09*	—	*(0.15)*	*1.09*	*(0.15)*	*0.34*	—	*0.00*
FHA LOANS (Section 235 and 237)																	
Northeast	11.79	(0.24)	1.74	8.03	(0.31)	1.18	2.05	0.33	0.15	1.71	(0.26)	0.40	1.68	0.21	0.23	(0.25)	(0.07)
North Central	13.15	2.24	0.85	8.84	1.47	0.58	2.29	0.51	0.37	2.02	(0.28)	(0.10)	1.94	(0.38)	0.41	(0.07)	(0.19)
South	12.49	0.57	0.70	8.24	0.39	0.49	2.13	0.04	0.16	2.12	0.14	0.05	2.14	(0.12)	0.35	(0.14)	(0.02)
West	16.15	5.69	4.95	10.95	4.16	3.65	2.67	0.82	1.05	2.53	0.71	0.25	2.71	0.12	0.68	0.33	0.09
U.S. Total	12.03	0.54	1.50	8.02	0.45	1.14	2.03	0.05	0.31	1.98	0.04	0.05	—	—	0.52	0.04	(0.10)
U.S. Total (S.A.)	*11.98*	—	*0.86*	*8.03*	—	*0.87*	*1.99*	—	*0.12*	*1.96*	—	*(0.13)*	*1.96*	*(0.13)*	*0.53*	—	*(0.09)*
FHA 245 LOANS																	
Northeast	8.94	2.04	0.89	5.22	0.82	0.75	1.24	0.23	(0.21)	2.48	0.99	0.35	—	—	0.27	0.09	(0.07)
North Central	7.69	3.06	(0.03)	4.59	1.75	(0.38)	1.40	0.57	0.18	1.70	0.74	0.15	—	—	0.39	0.10	(0.08)
South	9.69	1.49	(0.65)	5.69	0.50	(0.11)	1.93	0.52	0.06	2.07	0.47	(0.60)	—	—	0.51	(0.04)	(0.01)
West	9.30	2.71	1.45	5.91	2.06	1.22	1.61	0.46	0.29	1.78	0.19	(0.08)	—	—	0.50	(0.06)	(0.22)
U.S. Total	9.13	2.64	0.51	5.59	1.60	0.49	1.66	0.54	0.18	1.88	0.50	(0.16)	—	—	0.48	0.03	(0.11)
U.S. Total (S.A.)	*N.A.*	—	—	*N.A.*	—	—	*N.A.*	—	—	*N.A.*	—	—	—	—	*N.A.*	—	—

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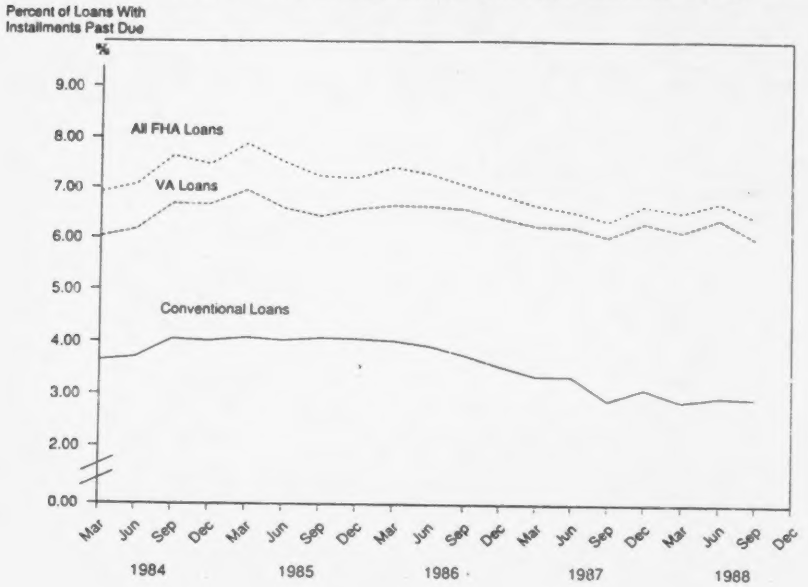
MORTGAGE BANKERS ASSOCIATION OF AMERICA

NATIONAL DELINQUENCY SURVEY OF 1- TO 4-UNIT RESIDENTIAL MORTGAGE LOANS
SEPTEMBER 30, 1988

SEASONALLY ADJUSTED DELINQUENCY RATES BY MAJOR LOAN TYPES



SURVEY INFORMATION AND NOTES

1. This survey includes 10.7 million mortgage loans on 1- to 4-unit residential properties totaling an estimated $462 billion of debt. These loans are serviced by more than 360 reporters, including mortgage bankers, commercial banks, savings banks, savings and loan associations, and life insurance companies.
2. A loan is considered 30 days delinquent if the September 1 installment has not been paid as of September 30. A loan is 60 days delinquent if the August 1 installment is unpaid as of September 30, etc.
3. "Foreclosure started during quarter" includes loans placed in the process of foreclosure during third quarter, deeds in lieu of foreclosure, and loans assigned to FHA, VA, other insurers or investors. "Foreclosure inventory end of quarter" includes all loans in process of foreclosure on September 30. Both foreclosure categories are excluded from "total installments past due."
4. Not all reporters provide data on FHA loans by section, thus, the sum of the two types of FHA loan breakdowns will not necessarily equal the number of all FHA loans reported.
5. National totals include Puerto Rico loans and loans of firms not providing state-by-state data.
6. S.A.—seasonally adjusted data.
7. NC—not calculated.
8. N.A.—not available.

CENSUS REGIONS

New England
NORTHEAST
WEST
West North Central
NORTH CENTRAL
Middle Atlantic
Mountain
East North Central
PACIFIC (including Alaska and Hawaii)
West South Central
East South Central
South Atlantic
SOUTH

Annual subscription is $30.00

Table 1

Survivorship and Decrement Table as of December 31, 1981 Based on Aggregate Insurance and Termination Experience for Home Mortgages Insured Since 1957

Section 203
30-Year Term
United States

Policy Year	Survivors Beginning of Policy Year	Terminations During Policy Year Claim	Non-(Prepay) Claim
1	100000.0	482.1	643.9
2	98874.1	1600.3	2127.4
3	95146.4	1456.7	3465.2
4	90224.5	1116.0	4058.1
5	85050.3	824.9	4454.9
6	79770.6	608.6	4818.4
7	74343.5	445.8	4847.6
8	69050.1	303.1	4691.6
9	64055.4	192.1	4290.4
10	59572.9	118.8	3863.9
11	55590.2	69.2	3596.9
12	51924.0	44.1	3293.5
13	48586.4	32.4	2941.1
14	45613.0	22.6	265[illegible]
15	42939.4	16.3	2386.3
16	40536.8	12.1	2151.3
17	38373.4	9.2	1948.9
18	36415.4	7.1	1773.7
19	34634.6	5.5	1611.4
20	33017.7	4.4	1449.0
21	31544.3	3.5	1293.4
22	30267.4	2.8	1491.8
23	28772.8	2.2	1660.4
24	27110.2	1.8	1809.8
25	25298.5	1.4	1927.1
26	23370.0	1.1	1998.7
27	21370.2	.9	2025.8
28	19343.6	.7	2011.4
29	17331.4	.5	2510.3
30	14820.7	.4	14820.2

Ultimate Claim Termination Rate	7.39 Percent
Ultimate Non-Claim Termination Rate	92.61 Percent
Estimated Life Expectancy	14.33 Years

Premium formula

To summarize the results thus far, the premium, P, is the sum of the five components represented by Expressions C through G. Expressions C, E, and G involve the premium, P, which we are attempting to determine. Hence, in order to get a closed-form expression for P, it is necessary to rearrange the terms of the equation specified in the first sentence of this paragraph. We leave this as an exercise for the reader. Because the equation is linear in P, this should be no problem.

It turns out that P, the (net) premium rate, is equal to 3.8 percent. Although it appears that we have not added any contingency loading, this is not in fact the case. Fortunately, due to the Direct Endorsement program and increased operational efficiency at HUD, the current salaries and expenses factor is substantially lower than the historical average employed in the calculations. In addition, the loss ratio employed is also somewhat higher than that of our 1983 Fiscal Year experience.

Unearned premium refund formula

Those of you who have followed the discussion thus far should have no trouble determining the unearned premium refunds due those who prepay their loans. For those who prepay their loans in the middle of the j-th policy year, the unearned premium refund percentage is determined from Expressions E, F, and G to be:

$$(P + LR)\sum_{k=j}^{30} \overline{AOB}_k\overline{C}_k V^{1/2+k-j}$$

$$+ EX \sum_{k=j}^{30} \overline{AOB}_k S_{k-1} V^{1/2+k-j}$$

$$+ \sum_{k=j}^{30} \overline{PREPAY}_k \Big[(P$$

$$+ LR) \sum_{k=j+1}^{30} AOB_k C_k V^{k-j}$$

$$+ EX \sum_{k=j+1}^{30} AOB_k \overline{S}_k V^{k-j} \Big]$$

continued

STATEMENT OF
THE NATIONAL ASSOCIATION OF HOME BUILDERS
before the
COMMITTEE ON VETERANS' AFFAIRS
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
on
THE ADMINISTRATION'S FY `90 BUDGET PROPOSALS ON THE VA HOME LOAN GUARANTY PROGRAM

February 9, 1989

Mr. Chairman and Members of the Subcommittee:

My name is Martin Perlman. As First Vice President of the National Association of Home Builders I represent over 155,000 member firms and associates nationwide. I am from Houston, Texas and have actively participated in constructing new single family homes under the FHA and VA housing programs for over 20 years.

Mr. Chairman, it is a pleasure to appear before you and to welcome you as you assume the leadership of the VA Housing Subcommittee. I look forward to working with you on issues of concern to the VA Home Loan Guaranty Program. I have appeared before this Subcommittee four times over the past year and one-half and am pleased to present our views on the Administration's budget proposals.

The FY `90 VA budget again calls for an increase in the VA user fee, a negotiated interest rate and federal credit reform. NAHB has policy opposing these proposals and urges that they again be rejected by the Congress. At your request we have also commented on the FY `90 budget proposals on loan asset sales, reduction in loan guaranty staff and "no bids."

OVERVIEW

Mr. Chairman, before proceeding with our specific comments on the FY `90 budget proposals, I would like to comment on the VA Home Loan Guaranty Program in general. This program has existed for forty-five years dating back to the Servicemen's Readjustment Act of 1944. It was created to assist veterans returning from the war to obtain homeownership. Because of their service to our country they did not have the opportunity to establish a credit record, which would have enabled them to purchase a home. Over the years this VA entitlement has resulted in the guaranty of almost 13 million home loans totalling over $300 billion. In 1987, I had the honor of representing NAHB at a ceremony in Phoenix, Arizona commemorating the closing of the 12 millionth loan.

We have worked well in partnership with the Veterans Administration over the years in providing homeownership opportunities for the men and women who have given of themselves in service to our country. We urge that any changes made in the entitlement nature of the VA Home Loan Guaranty Program be carefully considered so that the benefits of this important program will not be decreased.

FY `90 BUDGET PROPOSALS

Mr. Chairman, as you are aware many of the FY `90 budget proposals we are commenting on have been submitted in the past and rebuffed by the Congress. The following is our analysis of the FY `90 budget as it affects the VA Home Loan Guaranty Program.

Funding Fee Increase

The FY `90 budget proposes to increase the VA funding fee to 3.8 percent and to make the current 1 percent funding fee permanent. This is the fourth year that the Reagan Administration has recommended a fee increase and we urge that it be the fourth year that it is rejected.

Funding Fee History

Congress passed a funding fee of one-half percent in 1982. In 1984, it was increased to 1 percent for 3 years. In 1987, Congress extended it again for another 2 years with an expiration date of September 30, 1989. For 4 out of the past 5 years the Administration has asked for the fee to be increased beyond that passed by Congress. For FY `86, the Administration proposed an increase in the fee from 1 percent to 5 percent, unless the veteran chose to make a 5 percent downpayment. For FY `87, the Administration proposed a fee increase from 1 percent to 3.8 percent over a 4 year period. In FY `88 it proposed a fee increase to 2 1/2 percent and in FY `90 to 3.8 percent, all in one year. FY `89 was the only year in which there was not a fee increase proposed by the Reagan Administration.

Congress needs to reject again the piecemeal approach to funding the guaranty program with incremental fees, which erode the entitlement nature of the program.

Funding Fee Impact on Mortgage Payments

The impact on the homebuying veteran of raising the VA loan guaranty fee to 3.8 percent would be substantial. Assuming a veteran takes out a loan for $74,200 (the average loan amount for a VA home in FY `88) at 10.5 percent for 30 years, he would have an up-front cash payment of $742 with the 1 percent fee. If the fee is increased to 3.8 percent, the up-front cash payment increases by $2,078, bringing the total to $2,820. Many veterans would not be able to raise that much cash at the time they planned to purchase a home. If the loan fee is financed at 10.5 percent over 30 years, the veteran could pay an extra $4,762 in interest due to the fee increase.

Funding Fee as a Tax

Both the Reagan Administration and President Bush have continually expressed their opposition to new taxes. Not only can the proposal for an increased VA fee be considered a tax, but an unfair tax, as well. Veterans entering the VA Home Loan Guaranty Program for the first time may be asked to pay a "tax" from which they may never benefit if they do not default on their loans. The fee increase proposal should be viewed as an increase in revenue at the veterans' expense.

GNMA Fee/Impact on VA

We are also concerned that the FY `90 budget is again proposing to increase the guarantee fee charged by the Government National Mortgage Association (GNMA). The fee for this program, which is currently 6 basis points, would rise to 10 points in FY `91 and then to 15 points in FY `92, `93 and `94. Because Congress passed a law in 1987 prohibiting an increase in the GNMA fee, legislation would be required to make this change. We view the increases in both the GNMA and VA fees as a continuing effort to restrict federal credit programs. These fees will increase the cost of mortgage credit to veteran homebuyers.

The changes in the GNMA program have a substantial impact on the VA Home Loan Guaranty Program since roughly one-third of the collateral of GNMA securities is comprised of VA home loans. Additionally, almost all VA loan originations are securitized by GNMA.

Negotiated Interest Rate

The Administration intends again to seek authority for negotiated interest rates on VA guaranteed mortgages. This would eliminate the administratively set VA interest rate and allow for a negotiated rate between the buyer and the lender.

NAHB repeatedly has voted to support the administratively set rate. At our 1988 convention, a negotiated interest rate was again debated and voted down by our Board of Directors. NAHB has long endorsed the VA's ability to set the program interest rate in order to protect the interests of the veteran and the guaranty fund. We believe that the administratively set rate will give veterans a better opportunity to obtain homeownership.

Furthermore, because of its sensitivity to market conditions, the VA prevailing rate continues to be an important national benchmark for mortgage interest rates. If the VA's authority to set a maximum interest rate ceiling were eliminated, the credit markets would lose this stable measure of the cost of mortgage credit, a feature which becomes even more important in a volatile interest rate environment.

For these reasons, we continue to support the Administrator's authority to set the VA interest rate and to oppose the FY `90 budget proposal which recommends a negotiated rate.

Federal Credit Reform

The National Association of Home Builders strongly opposes credit reform measures which attempt to restrict federal mortgage credit activities of the Veterans Administration and other government housing programs. The credit reform legislation supported by the Administration would change the way federal credit programs are treated in the budget. It would require federal agencies to seek direct appropriations from Congress equal to what the cost of borrowing from private sources would be without a guaranty. We reject this proposal and urge Congress to oppose it also, since this is simply another attempt to restrict federal housing credit.

Asset Sales

We continue to be concerned with the Administration's policy decision to sell the loan assets of the VA and other federal agencies. Our concern is with the overall impact of the proposal upon the long term economic health of the various programs. In deciding which assets to sell, careful consideration must be given to assessing the true value of the income stream of the asset being sold. We urge that any short-term budgetary gain be balanced against the long-term loss of the income stream in determining the actual "value" of the asset sale and the long term implications and loss to the program.

Staff Reductions

The budget calls for a reduction in the loan guaranty staff of 45 employees from the FY `89 total of 2,078 to 2,033 in FY `90. The rationale for the reduction is that property acquisitions are dropping and the number of claims processed have been reduced.

We have concerns, however, that valuable expertise in the field may be lost and that these employees may still be essential to keep up with the workload and backlogs in the program. If, in fact, the number of claims processed continues to decline, instead of reducing the number of loan guaranty staff, such personnel could be redirected within the Veterans Benefits Administration. They could be transferred to such worthwhile programs as assisting veterans through counseling or other means to keep their homes in the event of loan delinquency or foreclosure.

"No Bids"

The FY `90 budget for the VA also includes a provision which has the effect of increasing the incidence of "no bids" (process whereby the lender, rather than the VA, acquires VA foreclosed property) by 10 percent. The budget adds an imputed interest charge of approximately 3.4 percent to the carrying cost of homes foreclosed by the VA. Currently, the VA reduces the fair market value of a home 10.6 percent to determine the net value of the property. The imputed interest charge is meant to cover the government's costs of borrowing money to acquire and dispose of these homes.

The Deficit Reduction Act of 1984 provides a formula which requires the VA to pay off the loan guaranty or "no bid" if it is less costly to the government than acquiring the defaulted property. This occurs when the total indebtedness, defined as unpaid principal plus accrued interest exceeds the net value by more than the guaranty. This formula expires on September 30, 1989 and should be extended without the imputed interest charges.

We also urge that regulations be implemented promptly to carry out changes made in the "no bid" formula in the 1987 VA Housing Act.

Mr. Chairman, we are addressing this issue because of the impact it is having on VA lenders. We are concerned that lenders will be discouraged from participating in the program if the "no bid" formula results in a higher level of foreclosed properties to be disposed of by lenders. If lenders are reluctant to participate in the program, it becomes much more difficult for veterans to obtain loans and become homeowners.

We urge you to prohibit the FY `90 provision in the budget proposal which adds an imputed interest charge when the VA determines whether or not to acquire a foreclosed property. We also urge you to extend the "no bid" formula beyond the FY `89 expiration date and that regulations be promptly implemented to carry out the intent of Congress.

OTHER CONCERNS

Adjustable Rate Mortgage (ARM)

Mr. Chairman, NAHB urges the Congress to support an adjustable rate mortgage (ARM) for VA homebuyers. We regret that this valuable mortgage instrument was dropped in conference when the 1987 VA Housing Bill was debated.

As you may be aware, last year's Housing Task Force report, "A Decent Place to Live" recommends updating the VA program to include an adjustable rate mortgage. The report emphasizes that an ARM is necessary to make the program fully responsive to market developments.

The Task Force recommended that the government should increase access to FHA mortgage insurance and the VA program. It stresses that, "mortgages with low downpayments are essential for an increasing number of home buyers, particularly first-time purchasers. Conventional lenders cannot and should not be expected to carry the risk burden of such loans; nor will private mortgage insurers fill the gap."

An adjustable rate mortgage is a very helpful mortgage instrument, since it could reduce a veteran's initial mortgage payment by about $100 a month on the average VA loan. It also enables more veterans to qualify in times of high interest rates. Veterans also will receive an automatic reduction in their borrowing costs when interest rates decrease, avoiding the costs and delays associated with refinancing. We urge the Congress to support authorization for the VA to offer this type of mortgage instrument, since it is the only major market participant without an ARM. A VA ARM is necessary to modernize the VA Home Loan Guaranty Program.

NAHB would be willing to work with the VA to develop information about the performance of ARMs to address the concerns of veterans groups about the safety and soundness of an adjustable rate mortgage.

Direct Approval of Appraisal Regulations

Mr. Chairman, the National Association of Home Builders appreciates the partnership which we have established with the Veterans' Administration. We have worked well together to solve problems facing the housing industry. In this regard, we urge prompt implementation of the 1987 VA Housing Bill which provides for direct approval of appraisals by VA lenders. Timely appraisals of property are critical in the new home market and this legislation would substantially shorten the time involved to process VA loans. We have been informed by the VA, however, that its regulations will apply only to existing housing, although it will be seeking comments on a pilot program for new construction.

Last year, our Board of Directors passed policy endorsing the immediate adoption of direct approval of appraisals by the VA. We urge you to seek immediate implementation of this program for new construction, as well as existing homes, which will be of particular benefit to new homebuying veterans in the marketplace.

CONCLUSION

Mr. Chairman, in conclusion, I urge that any action of the VA Committee take into account the entitlement nature of the VA Home Loan Guaranty Program. Budget proposals or other legislative initiatives which erode this benefit should be rejected by the Congress. Congress must continue the responsibility of providing assistance to veterans so that they will have the opportunity to obtain affordable housing.

Thank you for allowing us to present our views. I would be pleased to respond to your questions.

1125 Fifteenth Street, N.W.
Washington, D.C. 20005
202-861-6500

Mortgage Bankers Association of America

STATEMENT OF

RONNIE J. WYNN, CMB
President, Colonial Mortgage Company, Montgomery, Alabama

on behalf of the

MORTGAGE BANKERS ASSOCIATION OF AMERICA

before the

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
COMMITTEE ON VETERANS' AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

Hearing on

The Fiscal Year 1990 Veterans Administration Budget

February 9, 1989

Mr. Chairman and members of the Subcommittee, I am Ronnie J. Wynn, President of the Colonial Mortgage Company in Montgomery, Alabama, and President-Elect of the Mortgage Bankers Association of America (MBA).* Accompanying me today is Burton C. Wood, MBA's Legislative Counsel, and Robert M. O'Toole, Staff Vice President, Residential Finance and Government Agency Relations Department of MBA..

MBA appreciates the opportunity to appear before you today to testify on the Administration's proposed Fiscal Year (FY) 1990 budget for the Veterans' Administration (VA) home loan guaranty program. In addition, MBA would like to express its continuing concern about the implementation of certain provisions of the "Veterans' Home Loan Program Improvements and Property Rehabilitation Act of 1987," PL 100-198.

Mr. Chairman, MBA wishes, once again, to express its appreciation for the consideration given in 1987 by the House Veterans' Affairs Committee to the concerns expressed by the mortgage banking industry about the VA home loan guaranty program and for the passage of PL 100-198. MBA supported PL 100-198, a comprehensive and much needed law for the participants in the VA home loan guaranty program and was most pleased that Congress acted expeditiously on it.

Unfortunately, three provisions of that law affecting mortgage lenders have yet to be implemented through regulations by the VA. Even though the bill was signed into law over a year ago, on December 21, 1987, the VA has not implemented the no-bid formula changes, the mandatory underwriting on assumptions, and the new appraisal procedures. Industry representatives have repeatedly urged that the VA accelerate the release of these regulations, but those efforts have been unsuccessful.

The no-bid formula changes address the problem of the accrual of interest in cases where foreclosure is delayed by the VA, VA-requested forbearances, and bankruptcies. The no-bid formula was extended by PL 100-198 for two years and is scheduled to expire on September 30, 1989, less than nine months from now. The proposed regulations have not even been published. The longer the VA delays in publishing the regulations, the greater will be the number of foreclosure cases processed since the effective date that will have to be reopened by the VA and the lender. On November 4, 1988, the VA sent the regulations to the Office of Management and Budget (OMB), where they have been delayed. Our understanding is that OMB will not release these regulations until additional costs are added to the no-bid formula. Even then, OMB does not wish the procedures to take effect until October 1989.

The regulations for the mandatory underwriting of VA loan assumptions and for direct appraisals by automatic lenders are scheduled to be sent momentarily by the VA to OMB. The VA is currently processing the mandatory underwriting of assumptions of VA loans because regulations are not available. Underwriting assumptions is a common occurrence in the mortgage lending industry, so there is no need for such a lengthy regulatory process. In fact, FHA implemented a similar provision without regulations.

Of vital interest to MBA is the fee that a lender will be able to collect for underwriting an assumption. The VA suggested a fee of $350 during negotiations with MBA. A fee of less than $500 would be below the industry norm, which is one percent of the unpaid principal balance, and would not adequately compensate a lender for the additional work, which is estimated to cost over $700 per loan. The Department of Housing and Urban Development (HUD) allows a fee of $500 for underwriting an assumption of an FHA loan.

MBA also believes delays on implementation of the direct appraisal provision are unwarranted. This provision permits appraisals to be sent directly to VA automatic lenders for making a determination of reasonable value. The FHA has had a procedure for direct appraisals for a number of years that the VA could adopt.

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*The Mortgage Bankers Association of America is a nationwide organization devoted exclusively to the field of housing and other real estate finance. MBA's membership comprises mortgage originators and servicers, as well as investors, and a wide variety of mortgage industry-related firms. Mortgage banking firms, which make up the largest portion of the total membership, engage directly in originating, selling, and servicing real estate investment portfolios. Members of MBA include:

- Mortgage Banking Companies
- Commercial Banks
- Mutual Savings Banks
- Savings and Loan Associations
- Mortgage Insurance Companies
- Life Insurance Companies
- Mortgage Brokers
- Title Companies
- State Housing Agencies
- Investment Bankers
- Real Estate Investment Trusts

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In addition to its efforts with the VA, MBA, on numerous occasions, has expressed its concern to Congress. At a House VA Housing Subcommittee Oversight Hearing on PL 100-198 on September 7, 1988, MBA testified that the no-bid relief provisions became effective seven months earlier and that the slow regulatory process was contrary to legislative intent. On October 19, 1988, MBA President John M. Teutsch, Jr., wrote to Senate Veterans' Affairs Committee Chairman Alan Cranston (D-CA), Ranking Minority Member, Senator Frank Murkowski (R-AK), House Veterans' Affairs Committee Chairman Sonny Montgomery (D-MS), Ranking Minority Member, Representative Gerald Solomon (R-NY), and Housing Subcommittee Chairwoman Marcy Kaptur (D-OH) urging them to contact the VA about the regulations delay. Both Chairman Cranston and Chairwoman Kaptur wrote to the VA in November 1988 urging that the regulations be implemented promptly and without delay.

MBA has exhausted every administrative effort to secure the release of these regulations and urges Congress once again to exert its influence to secure their release. The industry is suffering from these shocking delays and urges that these regulations be issued immediately. They do not break new ground in any way. The assumption and appraisal procedures are common in the industry and the no-bid provisions simply modify existing procedures.

FISCAL YEAR 1990 VA BUDGET

Cost of Funds

In its proposed Fiscal Year (FY) 1990 budget, the VA anticipates a change in the VA no-bid regulations, effective October 1, 1989, that would include the "cost" of government borrowing. This will increase the number of no-bids, foisting even more losses onto lenders.

The term in the statutory no-bid formula that is affected by the VA proposal is "net value," which is defined as "the amount equal to (i) the fair market value of the (real) property, minus (ii) the total of the amounts which the Administrator estimates the Administrator would incur . . . for property taxes, assessments, liens, property maintenance, property improvements, administration, resale, and other costs resulting from the acquisition and disposition of the property."

The Conference Report 98-861, on HR 4170, accompanying the original enacting legislation, PL 98-369, the "Deficit Reduction Act of 1984," provides a further explanation of the definition of "net value." The Report states the term is not used in current (as of 1984) VA regulations governing liquidation sales and VA acquisitions following those sales, and that to determine net value, the VA would be required to subtract from the fair market value all of the estimated costs that the VA would pay to acquire and dispose of the property. The Report language then refers to these specific costs of the VA, as follows:

> "With respect to the cost of administration—one of the cost categories specified in the (definition of net value)—the conferees note their intention that this category include in-house costs to the VA that are clearly and directly related to acquiring, holding, and disposing of the property. The VA personnel costs involved would be an example.
>
> "In connection with the VA's calculation of the costs of acquiring and disposing of properties, the conferees do not intend to change the VA's current policy of not considering interest costs that the United States would incur if it were necessary for the government to borrow the funds for a particular acquisition. If the Administrator determines that a change of this policy is warranted, notwithstanding the conferees' position as stated above, the Administrator shall, not later than the February 1 preceding the fiscal year in which a proposed changed would take effect, provide the Veterans' Affairs Committees with notice of the change."

The 1984 Report language would seem to control the procedures the VA must follow in order to include cost of funds in determining "net value." In January 1989, the VA, in accordance with the Report language, notified the Veterans' Affairs Committees of the VA's decision to change its regulations, to be effective the beginning of the next fiscal year, i.e., October 1, 1989. Legislation will be necessary to prohibit implementation of this change.

MBA opposes this change in the no-bid calculation. Congress explicitly stated its intention in the 1984 Report language, i.e., the only costs to be included in the cost-of-administration category are those that are clearly and directly related to acquiring, holding, and disposing of the property. Congress then unequivocally stated it does not intend to consider, in calculating the VA's costs, interest costs that the Federal government would incur if it had to borrow funds in order to acquire a property. This language was included in the Report to prevent the VA from considering the cost of funds when determining net value.

If Congress does not act to prevent this change in the net value calculation, irreversible damage will be done to the VA home loan guaranty program. The estimated increase in no-bids would further deter lenders from participation in the VA home loan guaranty program. In a January 1989 national survey done by MBA, almost 70 percent of the lenders surveyed said they would limit their VA-guaranteed loans if VA rules were changed to increase the number of foreclosures where the lender must acquire and dispose of the property.

The number of no-bids has continued to increase unremittingly from 1,496 or 6.4 percent of foreclosures in FY 1984, to 11,391 or 23.9 percent of foreclosures in FY 1988. (See Exhibit.) The interest accrual rules for certain cases of foreclosure delays that were passed in 1987 to offer lenders some no-bid relief, as previously stated, have not been implemented by the VA. Lenders have still not experienced the benefits of that law. Including the hypothetical cost of funds in the no-bid formula will add to the lenders' no-bid burden. If the long overdue interest accrual relief is implemented by the VA at the same time as the cost of funds regulation, lenders will not benefit from the no-bid relief that Congress intended them to have.

MBA strongly urges Congress to act to prevent the VA's proposed change in calculating the net value of a foreclosed property. The no-bid formula is scheduled to expire on September 30, 1989. MBA believes the formula, as amended in 1987, should be extended and should be further amended to exclude explicitly the proposed interest costs from the statutory definition of net value.

Funding Fee

The one percent funding fee paid by the veteran at the time the mortgage is originated is due to expire on September 30, 1989. The Administration proposes to increase it to 3.8 percent for both guaranteed and vendee loans and make it permanent. MBA believes that the VA home loan program is an entitlement program for veterans who have served their country. Adopting a 3.8 funding fee would be a major erosion of that entitlement. Congress has to decide whether the home loan guaranty program should continue as an entitlement. Such a sharp increase in the funding fee radically alters the nature and benefit of the VA home loan guaranty program by converting it into a user fee paid program. MBA believes that the proposed fee is more than would be necessary for the program to be self-sustaining, in which case the increase represents a tax on veteran homebuyers, which MBA strongly opposes.

Moreover, MBA adamantly opposes any further efforts to transfer the burden of assuming losses to the lender via further modifications to the no-bid formula. While lenders are unwilling to absorb more losses, MBA strongly believes it is equally unjustified to force future veteran borrowers to pay funding fees in excess of projected future losses in order to cover losses incurred on defaulted loans originated in the past.

Loan Asset Sales

The proposed FY 1990 VA budget states that the VA will seek legislation that will prevent the law on loan asset sales from taking effect on October 1, 1989, as scheduled. As the law now stands, after September 30, 1989, the VA will be able to sell its vendee loan assets without recourse only if they are sold at par value. If it were not for language in the "Omnibus Budget Reconciliation Act of 1987," PL 100-203, that restriction on loan asset sales would be effective at the present time. Currently, loans may be sold without recourse for any amount.

MBA believes that sales of loans without repurchase agreements (no recourse) are not in the best interest of the Loan Guaranty Revolving Fund (LGRF). MBA has repeatedly stated that, over the long term, the LGRF would receive greater financial benefit from loan sales with recourse. In a January 1989 analysis of VA loan asset sales during FY 1988, the Congressional Budget Office (CBO) concluded that the VA loan sales without recourse generated $22 million less for the LGRF than if the sales had been with recourse. CBO compared the long-term returns of the two with-recourse sales with the two without-recourse sales that were held in FY 1988. Under the recourse sales, the VA was obligated to repurchase a 90-days delinquent loan, reimbursing the holder for only 60 days of interest at the time of repurchase. Under the no-recourse sales, the VA guaranteed both timely and full payment to the investors and, therefore, must absorb higher costs associated with delinquencies and defaults. To provide for such a situation, the VA overcollateralized its two no-recourse sales by 34 and 39 percent. The short-term cash proceeds from the overcollateralized sales were 60.66 and 56.83 percent of the adjusted value of the loans sold (face value minus price discount). In the case of the two recourse sales, the short-term cash proceeds were 100 percent of the adjusted value of the loans sold.

In addition to greater short-term cash proceeds, the CBO analysis concludes that the long-term sale return also was higher for the recourse sales. After deducting the estimated present value of the future liabilities for all the sales from their short-term cash proceeds, the long-term return was 97.15 and 97.36 percent for the recourse sales and 93.06 and 93.16 percent for the no-recourse sales. Clearly, VA benefits from higher profits on sales with recourse than on sales without recourse.

VA Staffing

The VA proposes for FY 1990 to eliminate 45 full-time employees from the administration of the home loan guaranty program. MBA believes that staffing over the past several years has been inadequate to handle the volume of defaults and foreclosures. The proposed reduction would further exacerbate the problem. The personnel are needed for increased servicing of delinquent mortgages and for management and disposition of the large inventory of acquired properties. We respectfully urge that Congress not agree to this untimely reduction.

Credit Reform

The Administration is once again submitting with the budget a legislative proposal that will attempt to measure and budget for the "grant equivalent subsidy" of Federal credit (direct loan, loan guaranty, and insurance) programs. This legislation is essentially identical to the "Federal Credit Reform Act," which was introduced, but not acted upon, in the last Congress.

The alleged purpose of this legislation is to consolidate management of all Federal credit programs within the Treasury Department, and to impose budgetary requirements and controls that would limit the economic impact of Federal credit programs. However, the legislation would also require quantification of and appropriations for a claimed "estimated subsidy" for Federal direct loan, guaranty, and insurance programs.

The "estimated subsidy" for a loan guaranty would be determined by estimating the net present value of the difference in cost to the borrower between the VA-guaranteed loan and alternative private financing potentially available to the same or a similar borrower for the same or a similar purpose. (Emphasis added.) The estimated subsidy would be reduced by any fee income generated by the home loan guaranty program.

The Administration budget request for FY 1990 for the VA home loan guaranty program reflects an "estimated subsidy" of 5.2 percent. Additional appropriations of $769 million would be required in FY 1990 to provide sufficient "subsidies" for the operation of the program.

This estimated subsidy misrepresents the cost of the Federal credit programs, and would place them, unlike other Federal programs, on a noncash accounting basis. It thus would penalize these programs in comparison with other Federal programs and would invite unfair comparisons. By requiring appropriations of large amounts of budget authority and approval by Congress and the Treasury before any loans could be guaranteed, the budgeting change would place pressure on Congress to decrease credit activity or increase or establish fees to offset appropriations needs. This budget process would act as a credit limitation on a demand entitlement program.

A Peat Marwick Mitchell evaluation of the Federal Housing Administration (FHA) mortgage insurance program released in December 1988 concluded that if FHA were made to operate like a private provider of mortgage credit, it would have to increase its present mortgage insurance premium by 25 percent. Peat Marwick identified several elements which comprised that 25 percent increase: 15.0 percent return on capital to private investors; 9.3 percent for payment of state and local taxes; 1.0 percent in marketing costs; and 2.5 percent in rating agency capital; all offset by a 3.2 percent decrement in investment income.

Clearly, these costs, particularly return to investors, are not costs that the FHA currently incurs, and charging them to a FHA mortgagor would turn this Federal agency into a revenue generating business.

The VA home loan guaranty "subsidy," if calculated on a similar basis, would thus unfairly misrepresent the cost of the program because it would reflect costs the government does not incur. If this "estimated subsidy" cost were to be recovered in fees, it would in fact penalize VA mortgagors, who would be paying to make the VA program a money-making operation.

MBA does not question that there is a value in a Federal mortgage credit program that facilitates the flow of funds to particular borrowers. First, Federal backing in the form of a full or partial guaranty effectively lowers the risk associated with providing credit to a particular borrower. Second, a financial subsidy may exist in certain programs to the extent that fees and revenues do not cover program defaults and administrative costs. Last, efficiency in the marketplace results from standardization, homogeneity, and volume; this is particularly applicable to Federal mortgage credit programs. The Administration credit reform proposal goes beyond mere quantification of those factors, and instead would tax all three components of that value.

Negotiated Interest Rates

MBA supports legislation that would free VA loans from any interest rate controls. Although the VA has been quite responsive to market forces in recent years in making interest rate changes, a free rate would ensure the most efficient operation with the secondary mortgage market and minimize disruptions in the availability of mortgage credit to veterans.

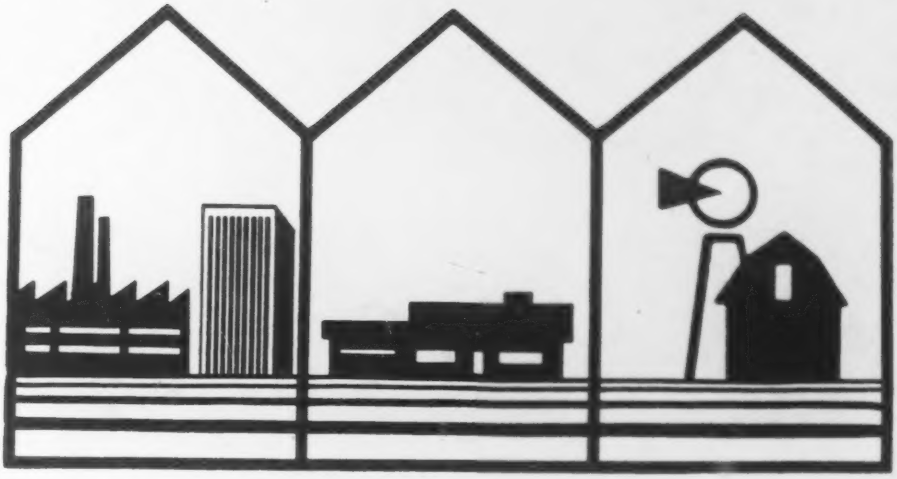
MBA appreciates the opportunity to testify before the Subcommittee and would be happy to answer questions or provide additional information, as necessary, for inclusion in the record.

EXHIBIT

VA NO-BIDS AND FORECLOSED LOANS

Fiscal Year Ending	Loans Foreclosed	Number of No-Bids	Number of No-Bids As Percentage of Total Foreclosed
1981	12,490	358	2.9
1982	15,427	238	1.5
1983	21,176	689	3.3
1984	23,377	1,496	6.4
1985	27,276	3,055	11.2
1986	34,642	5,236	15.0
1987	43,316	9,097	21.0
1988	47,712	11,391	23.9

Source: Veterans Administration
Prepared by the Mortgage Bankers Association of America, February 1989.



Statement of the
NATIONAL ASSOCIATION OF REALTORS®
THE WORLD'S LARGEST TRADE ASSOCIATION

TO: HOUSE SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS

ON: REAGAN ADMINISTRATION'S FY 1990 BUDGET PROPOSALS

BY: JERRY MCGUIRE, CHAIRMAN OF THE GOVERNMENT MORTGAGE PROGRAMS SUBCOMMITTEE

DATE: FEBRUARY 9, 1989

STATEMENT OF THE
NATIONAL ASSOCIATION OF REALTORS®
BEFORE THE
HOUSING AND MEMORIAL AFFAIRS SUBCOMMITTEE
OF THE
HOUSE VETERANS AFFAIR COMMITTEE

BY

JERRY MCGUIRE

FEBRUARY 9, 1989

INTRODUCTION

Mr. Chairman, Members of the Subcommittee, my name is Jerry McGuire. I am a REALTOR® from Littleton, Colorado. On behalf of the more than 800,000 members of our Association, I want to thank you for the opportunity to present our views on proposals offered by the outgoing Reagan Administration's Fiscal Year 1990 budget with respect to the Department of Veterans Affairs. Our testimony will specifically address the following FY 1990 budget proposals: the increase in the loan guaranty funding fee; repeal of VA's current authority to establish maximum interest rates; increase and make permanent the loan guarantee funding fee; repeal of VA's current authority to establish maximum interest rates and instead allow for borrower/lender negotiated rates on guaranteed loans; credit reform requiring subsidy payments to the Department of the Treasury; restructuring of law pertaining to loan asset sales; and reduction in loan guaranty FTEE.

The NATIONAL ASSOCIATION OF REALTORS® believes it is imperative for Congress to develop a formal national housing policy that provides a reasoned framework in which to address the nations housing needs. Homeownership is a fundamental American value. It is a primary goal for Americans of all ages.

INCREASE AND MAKE PERMANENT THE LOAN GUARANTEE FUNDING FEE

The VA Home Loan Guaranty Program is an entitlement program established under the Serviceman's Readjustment Act of 1944. Congressional intent for the program was not to serve as an instrument to achieve any Federal economic objective. The sole objective of the program since inception has been to assist eligible veterans to become homeowners.

We share the continuing concern over the financial stability of the VA Loan Guaranty Revolving Fund (LGRF). This Fund is responsible for paying both the program's administrative costs and mortgage claims. Unfortunately, the Direct Loan Revolving Fund (DLRF), which historically transferred its earnings to the LGRF when a deficit occurred in that Fund, was terminated in 1981 (except for a small number of loans for specially adapted housing.) At that time, the Administration required it to sell the majority of its direct loans. The result was the loss to the LGRF of the steady income stream from interest on those loans. To further compound the problem, the downturn in certain areas of the economy in recent years has caused an increased number of loan defaults and foreclosures beyond the control of the veteran homeowner.

The Association believes these situations have threatened the viability of the VA Home Loan Guaranty Programs by substantially increasing program costs, and resulting in the need for higher appropriations. The Association believes that affordable housing is -- and should continue to be -- an entitlement program for veterans. We are strongly opposed to the increase of the funding fee from 1 to 3.8% which would be effective October 1, 1989. Given the entitlement nature of the VA program, the Association cannot support any increase or permanent funding fee for those who have served the country.

REPEAL OF VA'S CURRENT AUTHORITY TO ESTABLISH MAXIMUM INTEREST RATES AND INSTEAD ALLOW FOR BORROWER/LENDER NEGOTIATED RATES ON GUARANTEED LOANS

This proposal would repeal the authority of the Secretary of VA to establish the maximum rate which veterans may pay on VA-guaranteed home loans. This statutory change would allow veteran-borrowers and lenders to negotiate the interest rate on VA-guaranteed loans.

In 1983, the FHA administered interest rate was deregulated to allow for a rate as agreed upon by the borrower and the lender. The Association supported that modification then, believing that it significantly improved the ability of borrowers to utilize that valuable program. In like manner, we similarly will not oppose proposals which would substitute the market forces of supply and demand for the artificial restriction on interest rates of VA-guaranteed loans.

The rapid increase in mortgage rates which occurred in March and April 1986 illustrates the need to allow competitive forces to determine the interest rates on VA loans. Although VA attempts to establish a rate which reflects the current market, the administered VA rate does not keep pace with market forces, particularly when mortgage rates rise rapidly or where the market is volatile.

The Association believes a negotiated rate on VA-guaranteed loans is an important step in keeping the VA Home Loan Guaranty Program responsive to the changing economic and financial needs of all veterans.

CREDIT REFORM REQUIRING SUBSIDY PAYMENTS TO TREASURY

As the NATIONAL ASSOCIATION OF REALTORS® has indicated in previous testimony, the Association's experience with credit reform proposals has been that they are invariably harmful to government sponsored housing finance programs. We therefore urge in the strongest possible terms that the Congress exercise extreme caution, deliberation and study before taking any action in the credit reform area. The last proposal submitted by the outgoing Reagan Administration, which is difficult to understand and extremely complicated, throws up a red flag for all those truly interested in expanding the housing opportunities of the American people. We at the NATIONAL ASSOCIATION OF REALTORS® will continue to analyze the outgoing Reagan Administration's plan as well as any plan recommended by the Bush Administration and will submit to your Committee and others in Congress our conclusions. We look forward to working with you in this extremely delicate area.

RESTRUCTURING OF LAW PERTAINING TO LOAN ASSET SALES

The NATIONAL ASSOCIATION OF REALTORS® suggests that the VA be authorized to sell vendee loans with recourse, provided that the purchase price is at least 90% of the unpaid principal balance. There are two principal advantages to this: first vendee loans, with recourse are a more attractive investment opportunity, and would result in more sales than would otherwise be realized. Second, these loans would receive a higher price from investors. The combination of these would result in higher revenues to the Federal Government.

The NATIONAL ASSOCIATION OF REALTORS® is concerned that the sale of vendee loans without recourse will have an adverse effect on this program and would result in significantly lower sales.

The NATIONAL ASSOCIATION OF REALTORS® has long sought to assure that the sale of VA vendee loans does not result in the "dumping" of valuable VA assets.

REDUCTION IN LOAN GUARANTY STAFFING

The NATIONAL ASSOCIATION OF REALTORS® notes that inadequate staffing in the regional VA offices has, during periods of low interest rates and high loan demand, contributed to the delay in processing of mortgage applications. In some cases, the delay has been greater than 120 days, which is, in our view, an unacceptable timeframe. Thus, we commend the Congress for authorizing the VA to contract out loan processing and underwriting activities. This will allow the entire loan package to move swiftly to VA for approval.

Despite the most valiant efforts, however, it is our experience that VA can still be overwhelmed by the number of loans it receives for approval. Thus, the NATIONAL ASSOCIATION OF REALTORS® believes that the staffing level of the VA regional offices should be increased, not decreased.

CHANGE VA REGULATIONS TO INCLUDE THE COST OF GOVERNMENT BORROWING IN THE DETERMINATION OF WHETHER TO ACQUIRE OR NOT FORECLOSED PROPERTY

The NATIONAL ASSOCIATION OF REALTORS® recognizes that the government is attempting to recognize all costs in deciding whether to acquire a foreclosed property. We are concerned, however, that the potential for increased inventoried properties for lenders could make them more reluctant to originate and service VA loans.

CONCLUSION

Mr. Chairman, I would like to thank you again for this opportunity to testify at this hearing. The Association looks forward to working with you and your staff to develop legislation which will address the housing needs of veterans. I will be happy to answer any questions.

STATEMENT OF
RICHARD F. SCHULTZ
ASSOCIATE NATIONAL LEGISLATIVE DIRECTOR
DISABLED AMERICAN VETERANS
BEFORE THE
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
OF THE
HOUSE COMMITTEE ON VETERANS AFFAIRS
February 9, 1989

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

On behalf of the more than 1.1 million members of the Disabled American Veterans and its Ladies Auxiliary, I wish to thank you for inviting us here today to present our views on the Administration's Fiscal Year 1990 budget request relative to the Housing and Memorial Affairs Programs of the Department of the Veterans Affairs.

Before addressing the issues before us here today, we would first like to take this opportunity to congratulate you, Mr. Chairman, on your election as Chairman of the Subcommittee on Housing and Memorial Affairs and extend a warm welcome to all the members of this important subcommittee. As you are aware, Mr. Chairman, action taken by this subcommittee in the coming year will go a long way in determining whether VA Housing and Memorial Affairs Programs will adequately meet the needs of our nation's veterans and their families.

Mr. Chairman, with your letter of invitation to appear here today to discuss the Administration's Fiscal Year 1990 budget proposals affecting VA Housing and Memorial Affairs, you also attached a summary outline of some of the Administration's legislative proposals which come under the jurisdiction of this subcommittee. With your permission, I will now discuss DAV's views relative to the operation and funding of the VA Housing and Memorial Affairs Programs.

VA Home Loan Guaranty Program

As you know, Mr. Chairman, the focus of the VA Home Loan Guaranty Program is to assist eligible veterans in obtaining mortgage credit without a down payment for the purchase of existing or manufactured homes and construction of new homes.

There is no doubt that the VA Home Loan Guaranty Program has been a good investment in America. It has helped millions of veterans and their families become homeowners -- thereby adding stability and expanding the tax base of nearly every community in our country. Since the program's inception on June 22, 1944, veterans have obtained over 12 million VA guaranteed home loans.

Veterans' use of the VA Home Loan Guaranty Program -- like private sector housing programs -- is subject to and directly related to general economic conditions and, more specifically, to conditions in the financial and housing markets.

As we all know, during the early 1980's, the housing and financial markets experienced a shortage of mortgage funds. This, coupled with increased home prices, as well as the highest interest rates in history and the unprecedented rates of high unemployment, adversely impacted on the VA's Home Loan Guaranty Program.

Fortunately, those economic conditions have improved and mortgage funds are generally more available, interest rates are down from their record-breaking high in Fiscal Year 1982, and home prices have remained relatively stable. Additionally, the high rates of unemployment have also been reduced significantly.

Unfortunately, however, the VA Home Loan Guaranty Program continues to experience unacceptably high rates of foreclosure. Since Fiscal Year 1983, appropriations of nearly $2 billion have been necessary to keep the VA Home Loan Guaranty Program operational.

Compounding the economic factors which have caused a major increase in the number of loan defaults, program costs are significantly higher than they should be because of:

- A decreased cure rate of loans in default.
- The issuance of bad loans.
- Poor appraisal practices.
- Poor maintenance of foreclosed homes.
- Poor marketing techniques.

Mr. Chairman, in response to the Administration's failure to send the Congress a realistic assessment of the funding needs of the VA, several veterans service organizations have undertaken an effort to address these needs. This years Independent Budget (IB) titled "The Need is Now" represents the second year we have sent Congress a budget which we believe sets forth the funding and employee levels necessary to operate the VA system of benefits and services.

For a maximum impact, the IB should mirror the format of the VA's budget justifications because the contrast between the VSO's and the VA's analysis and recommendations can then be glaringly apparent. In preparing such a budget, however, the VSOs are confronted with some obstacles and limitations. Let me explain what we mean.

We can, of course, independently identify veterans' needs and assess the VA's performance in providing service to meet those needs. Using historical data and common sense, we can define adequate service in terms of specific workload-oriented goals for the components within VBA and provide a general assessment of the resources needed to meet those goals. We can also give informed estimates on specific resource needs (and their costs) and in some instances, for example, in CP&E and VR&C, we have the data and knowledge to state with precision what resources are needed to restore adequate service to veterans.

However, there is a point where the VSOs (and Congress) simply do not have and should not be expected to have the means to do the job that the VA is supposed to be doing. For example, where service levels are clearly deficient, Congress needs to know what the true costs are of restoring adequate service. This requires an in-depth management and program analysis which only the VA is now in a position to provide. To be more specific, using Loan Guaranty as an example, an informed budget formulation process should include such factors as:

- The actual and associated costs of the current level of services, i.e.:
  - How many "bad" loans are issued and what is the average program cost for each;
  - How many loans in default could have been prevented by counseling that was not provided and the average cost for each;

- How many properties have been erroneously appraised and at what cost;
- How much has the average sale price of properties been reduced because of poor maintenance and marketing techniques; and
- How many loans in default could be cured if meaningful counseling and assistance were provided to veterans whose loans are in default.

All of these factors result in quantifiable costs for which appropriations are or will be needed. Responsible budget formulation should be directed to identifying cost-effective measures that will improve service and, therefore, reduce overall appropriations. The relevant questions are:

What are the optimum resources needed to achieve a balance between good service to veterans and cost-effectiveness?

What impact would additional FTEEs have on program savings, e.g., how many FTEEs are needed to improve the default cure rate by 1%, by 2%, etc. and what are the personnel costs versus the program savings?

What improvements can be made in work processes either through management initiatives or enhanced technological capabilities? What are the costs and what savings can be expected?

What are the projected out-year savings, both program and administrative, resulting from the additional resources being requested?

Mr. Chairman, we submit that this is the manner in which budget formulation should be conducted. The primary recommendation of the IB is for Congress to direct the VA to use this methodology in their budget justification. The baseline for budget formulation must be a definition of what constitutes good service, expressed in specific and measurable workload-oriented goals. The budget analysis would then be focused completely on realistic assessments of the resources needed, given effective management and employee efficiency, to meet the good service goals. The IB follows this methodology and we hope it can serve as a model to Congress of informed and responsible budget-making.

Loan Guaranty

Mr. Chairman, everyone (except, apparently, OMB) recognizes that additional FTEEs would generate tremendous program savings. Program costs are considerably more than they should be because the existing staffing level is insufficient to provide adequate service. Here, good service and program savings are directly related to each other. Additional FTEEs are desperately needed to improve performance in preventing and curing defaults and increasing the sale price of properties through effective property management. Improved service in these areas is indisputably cost effective.

The Administration's response in the FY 1990 budget is to request a reduction of 45 FTEEs.

We do not concur with the Administration's proposed reduction in FTEEs in loan guarantee and are recommending a supplemental appropriation for Fiscal Year 1989 of $2,006,000 which represents an increase of 140 FTEEs in loan guaranty. We recommend the supplemental appropriation as the need is great and immediate. Waiting until the new Fiscal Year (October 1989) to address this critical employee shortage in the loan guaranty division will only exacerbate the already critical shortage of employees needed to service loans and provide property management functions within the home loan guaranty division.

Mr. Chairman, the Administration's budget proposal for Fiscal Year 1990 for the Loan Guaranty Revolving Fund includes an appropriation request of $453 million plus estimated receipts of $910.8 million from recourse loan sales. We do not agree with the Administrations assumption on loan sales and therefore recommend an appropriation of $1.364 billion for the Loan Guaranty Revolving Fund.

I might add here, Mr. Chairman, we are hopeful that during this session of Congress legislation will be enacted to provide solutions to the serious problems confronting the Loan Guaranty Program. As you know, this subcommittee addressed a number of these issues last year by passing HR 5221 which the DAV was pleased to support.

PROPOSED LEGISLATION

The Administration's Fiscal Year 1990 budget request proposes legislation affecting the Loan Guaranty Program as follows:

(1) amend current law to permit lender/borrower negotiated interest rates on VA guaranteed home loans;

(2) implement government-wide credit reform -- directly impacting on the VA Home Loan Guaranty Program;

(3) implement the loan guaranty program operational improvement program (LPS);

(4) sell loans with or without recourse; and

(5) increase the loan guaranty funding fee from 1% to 3.8%, effective October 1, 1989.

Mr. Chairman, the Administration is again proposing to remove the Administrator's authority to set the interest rates on VA guaranteed home loans. We are opposed to this, for, should this occur, interest rates would then be dictated by mortgage lenders at, we suspect, a level significantly higher than would be set by the Administrator. Without doubt, all veterans, including service-connected disabled veterans, would be adversely effected by such a procedure.

Also, Mr. Chairman, the Administration is again seeking the enactment of government-wide credit reform legislation.

Mr. Chairman, contrary to the information provided in the Administration's budget documents (attempting to justify their credit reform proposal), it would appear that the real purpose of this proposal is to limit all new loan obligations in the near term with the ultimate goal of virtually eliminating all such federal programs. We do not believe this reform to be in the best interest of veterans.

We are encouraged to note the VA's desire to implement the Loan Guaranty Program Operational Improvement Project (LPS). As we understand it, the LPS is designed to automate and streamline several aspects of the Loan Guaranty workload process.

However, we are extremely concerned over the projected loss of 177 FTEEs due to the implementation of the LPS. We believe it very unwise to assume, as the VA apparently has, that fewer employees are required prior to an automated program being implemented. Therefore, we urge the Committee to restore these FTEEs.

Mr. Chairman, we view the Administration's proposal to sell loans with or without recourse as another OMB short sighted policy which could have disastrous long term effects. As you know, when Congress became aware of the no recourse loan sales which netted the VA only fifty-six cents on the dollar, Congress took action to require the VA, effective October 1, 1989, to sell loans at 100% of par. While we understand the Administration's desire to have some flexibility in selling their long portfolio, we do not believe that selling VA assets at fifty-six cents on the dollar is in the long-term best interest of the VA Loan Guaranty Program.

Finally, Mr. Chairman, we would take this opportunity to again register our opposition to the Administration's proposal calling for an increase -- from 1% to 3.8%, effective October 1, 1989 -- in the loan guaranty users fee.

The DAV has repeatedly expressed serious reservations regarding the requirement that veterans pay for the privilege of using an earned VA benefit. We do so again at this time.

Department of Memorial Affairs

Mr. Chairman, as you are aware, the Department of Memorial Affairs has responsibility for the National Cemetery System; providing headstones or markers for the graves of deceased veterans; and the administration of the State Cemetery Grant Program. We believe the Department of Memorial Affairs is doing a good job in meeting the current burial needs of veterans and wish to commend them for their efforts.

We do, however, wish to point out that the VA National Cemetery System currently consists of 112 operating National Cemeteries in thirty-eight states and Puerto Rico with two additional National Cemeteries to be added by 1991. Also, through 1989, fifty-one of the one hundred and twelve National Cemeteries will be closed to new interments and by the year 2000, based on current projections, only forty-five National Cemeteries will be open to new interments and nineteen states will have no National Cemetery or will be closed to new interments.

Mr. Chairman, these facts are disturbing, especially in view of the aging veteran population and the obvious need for a greatly increased number of grave sites in the National Cemetery System in the not to distant future. In this regard, the DAV strongly supports a policy of having one open National Cemetery in each state.

While we believe the Administration's Fiscal Year 1990 budget request for 35 additional FTEEs at a cost of $3.2 million is adequate to meet the short-term needs of this well run department, the planning, funding, and acquisition of additional grave sites should begin now and the resources needed to accomplish this should be reflected in the Fiscal Year 1990 budget.

The Administration's Fiscal Year 1990 budget request also proposes changing current law to provide for the VA plot allowance to be paid only in the case of those veterans who were either in receipt of VA compensation or pension benefits at the time of death or to wartime veterans who died without sufficient resources for burial.

Mr. Chairman, we view the initiative to "standardize" the eligibility for the VA plot allowance as simply another example of an Administration effort to repeal an entitlement that has been bought and paid for by honorably discharged veterans. Accordingly, the DAV opposes this legislative proposal.

State Veterans Cemetery Construction Grant Program

As you know, Mr. Chairman, this program provides for grants to states for the establishment, expansion, and improvement of state veterans cemeteries. Recognizing the importance of this program in helping to alleviate the problem of accessible burial space, we recommend an appropriation of $6 million for Fiscal Year 1990 consistent with the Department of Memorial Affairs plan.

This concludes our statement, Mr. Chairman. Again, we wish to thank you and the members of the subcommittee for this opportunity to present our views regarding the funding and employee levels necessary of adequately administer the VA's Housing and Memorial Affairs Programs.

NCOA

Non Commissioned Officers Association of the United States of America

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STATEMENT OF

Richard W. Johnson, Jr.
Director of Legislative Affairs

before the

Subcommittee on Housing and Memorial Affairs
Committee on Veterans' Affairs
U.S. House of Representatives

on

Department of Veterans Affairs
Housing and Memorial Affairs
Budget Request FY 1990

February 9, 1989

Chartered by the United States Congress

The Non Commissioned Officers Association of the USA (NCOA) sincerely appreciates this opportunity to comment on budget matters pertaining to the veterans home loan guaranty program and the National Cemetery System. Once again the Administration has proposed several changes in the loan guaranty program, all of which the association opposes. The Administration has again proposed termination of burial plot allowances for most veterans and has ignored other needs of the National Cemetery System. In the following paragraphs NCOA will outline some of the faults in budget proposals for both the loan guaranty program and cemetery system and will suggest some alternatives for future operations in both systems.

Loan Guaranty

The veterans home loan guaranty program was established over 40 years ago as a benefit program made available to veterans by a nation grateful for their service. Since it was established the program's goals have remained unchanged: assist the veteran in the purchase of a home; assist the veteran in retaining the home; and, manage the program to minimize its cost. In the years since it was created it has made home ownership possible for nearly 13 million veterans and it has added more than $300 billion in property to the tax bases of communities across the nation. Through most of its first 40 years of operation the program was so successful that it became self sufficient by using the income from its direct and vendee loans to offset the losses suffered on acquisitions and foreclosures. Unfortunately this financial success has distorted the status of loan guaranty as a benefit program.

Over the past few years, Congress and the Administration have lost sight of the benefit aspect of loan guaranty. Instead both have focused on the historical self sufficiency of the program to presume it should have no cost. As the need for appropriations began to rise, Congress and the Administration sought solutions to reduce outlays. Too often these costs were transferred to veterans.

First came the creation of the temporary one-half of one percent funding fee. Then came proposals to increase the fees, finally successful in creating a "permanent" one percent funding fee. As detestable as the fee is, at least it is honest and overt. More covertly, other program costs have been transferred to veterans.

The funding fee was supposed to offset the cost of foreclosures and reduce the debt of less fortunate veterans whose homes are lost. Yet by provision of the Budget Reconciliation Act of 1984 (P.L. 98-369 section 2512), the VA automatically takes 10.83 percent of the value of any home in foreclosure for acquisition, management and resale expenses. Under this "net value" formula, veterans who paid funding fees for their own guaranty, expecting protection against such loss, are legally robbed of profit potential in foreclosure. The "no bid" formula further transferred program costs to veterans. New underwriting criteria instituted two years ago transfer costs to veterans. Indeed, as NCOA has warned, these transfers are making the program a "veterans helping veterans" program more than a federal benefit program for veterans.

Current Proposals

Certainly among the most disappointing portions of the budget request are the provisions regarding the veterans home loan guaranty program. Once again their primary purpose is to transfer program costs to veterans.

Included are four proposals the Reagan Administration has tried to push on Congress before. Negotiated rates are at the top of this list, followed by an increase in funding fees from 1 percent to 3.8 percent, a replay of credit reform and a plea for without recourse loan sales authority. NCOA opposes all the recommendations.

Allowing negotiated interest rates among veterans and lenders does not even belong in the budget. It has no financial impact except to the detriment of veterans. Few mortgage companies really negotiate mortgage rates. Moreover, few homebuyers (veterans or not) have the experience or ability to know how to negotiate. Furthermore, nothing in current law prevents a veteran from negotiating a rate lower than the maximum rate set by the VA. The VA rate is the only fixed mortgage interest rate in the country. Accordingly, it serves as a benchmark by which all other rates are competitively measured. Its repeal would hurt all homebuyers and could lead to unjust lender profits.

NCOA also opposes the proposed increase in participation fees. Foremost, the fee bears absolutely no relationship to the cost of guaranteeing any loan. Second, the fee provides nothing on default. (The VA keeps the fee but automatically devalues all property acquired through default by an administrative measure of 10.83 percent which is assessed as debt to the veteran.) This list of objections could easily grow to unmanageable proportions, but the bottom line is the fee is without purpose. It buys the veteran nothing. It is simply a veterans helping veterans shift of appropriations which the association opposes.

Credit reform and without recourse loan sales are equally distasteful ideas. The credit reform idea requires the VA to deposit with the Treasury Department the "subsidy value" of all loans it guarantees. Such transfers would amount to $833 million in 1990 according to the budget request, but this figure has no basis. The actual subsidy value on a VA loan is only about $100 unless there is a default. Then the subsidy value can vary up to plus or minus 50 percent of the value of the loan. And, all subsidies are colored now by the size of the VA's inventory of homes and the deficit in the Loan Guaranty Revolving Fund (LGRF). When the LGRF was profitable through the 1970's there would actually have been a negative subsidy value on veteran mortgages. Essentially, credit reform is a shell game of accountability which NCOA opposes.

Last year Congress prohibited the without recourse sale of loans from the VA portfolio. In testimony on behalf of the prohibition NCOA used the following example. In late 1987 the VA announced it had sold $219.3 million in loans for $220.5 million. The margin by measure was .54 percent above par. The monthly income from those loans averaged .79 percent. In other words the VA sold a monthly income of more than $1.5 million for a one time profit of $1.2 million. Granted, a portion of the monthly income is consumed in loan administration, but not enough to outweigh the profit. Moreover, this was a par value sale. Imagine the loss on a without recourse sale at 40% below par. NCOA sees absolutely no compelling reason to return to without recourse loan sales.

In prior testimony before the committee the Congressional Budget Office commented rather eloquently on the relative value of loan sales:

> ...CBO believes that reductions in the budget deficit, properly measured should only reflect actions that actually improve the government's financial condition and, thus, lessen the need to reduce spending or increase tax revenues now or in the future. Since sales of VA vendee loan and other loan assets, with or without recourse to the government, do not improve the government's financial condition CBO believes they should not be considered to reduce the deficit. The cash the government receives in exchange for loan assets sold without recourse does indeed reduce the current cash deficit, federal

> borrowing, and future interest payments on the federal debt. Nonetheless, future deficits and borrowing will not be reduced because the interest and principal payments will go to the loan asset holder, rather than the government, and these amounts are equivalent in present value terms to the proceeds of the sales. Moreover agency loan sales do not reduce the government's demands on the credit market -- the Treasury borrows less, but the sales tap the same pool of saving. Thus, in CBO's view, loan sales with or without recourse -- are merely a more expensive form of borrowing than issuing Treasury debt, and should not be considered a form of deficit reduction because they do not improve the government's financial condition.

Thus NCOA must conclude that all loan sales are less than desirable. Further, NCOA must conclude the salvation of the program resides in expansion of the VA's role as a mortgage banker.

Alternatives

The veterans loan guaranty program needs innovation if it is to survive. This once profitable showpiece has been robbed of its future by the sale of the portfolio which supported its revolving fund operation. NCOA reluctantly concedes it is probably too late and too expensive to rebuild a portfolio capable of fully supporting the program. However, the association believes there are some innovative financing methods available.

In prior testimony NCOA recommended the sale of federally insured housing bonds as a financing method for new income producing direct loans. NCOA still believes the immediate financing opportunities offered by this option make it highly desirable.

Last year the Housing and Memorial Affairs Subcommittee designed what may yet be a workable mortgage indemnity insurance program. However it is not expansive enough to retire the current debt and it, too, transfers more of the program cost to veterans.

Now NCOA proposes a unique, innovative and admittedly radical proposal. Create a new direct loan program for veterans. Offer with that program mortgage life insurance, participating whole life and premium supported mortgage indemnity insurance as options. In fact open participation in the insurance programs to any veteran homeowner who meets reasonable underwriting criteria. Automate VA processing to accommodate the workload and replace the annual cash basis accounting system in favor of one which more accurately reflects the income, holdings, and expenses of the fund. Finally, finance this endeavor through the investment of veterans' life insurance reserves.

Currently veterans' life insurance reserves total nearly $14 billion. Over $12.3 billion of that amount is in Treasury securities earning interest at about 9 percent. Policy return rates are only about 4.5 percent leaving a wide margin of protection. Mortgages and mortgage bonds are a well recognized commercial investment alternatives for such reserves. Albeit radical, NCOA believes this approach to create financing of the veterans' loan program would present an acceptable risk and a proper alternative to ever increasing participation fees and appropriations.

Cemeteries and Burial Benefits

NCOA continues to believe the regional cemetery system should be augmented by a series of smaller cemeteries in major population centers. Unfortunately the budget proposal only includes funding for the expansion of existing cemeteries. As a result of this nearsighted policy only about 40 percent of all veterans will live within a 50-mile reasonable access radius to a national cemetery. Nearly two years ago Congress funded environmental impact studies for new cemeteries in Chicago, Cleveland, Albany and Seattle/Tacoma. Unfortunately, the VA appears not to have followed through on this congressional initiative. Hopefully the budget will be modified to include advance planning and site acquisition funding for cemeteries in these major population centers.

As it was last year, NCOA remains opposed to the elimination of the $150 VA burial plot allowance. In addition to being the only benefit many veterans will receive, the proceeds often inure to the support of state veterans cemeteries and veterans sections of private cemeteries. Its termination would send a very bad signal to veterans.

NCOA Recommendation

NCOA proposes again to expand the distribution of burial flags to include members of the reserves. In recent years the reserve components of the armed forces have assumed an ever increasing and integrated role in providing for the national defense. Reserve components are no longer stepchildren of the regular force. NCOA believes expansion of the burial flag benefit is one manner of acknowledging this new role.

The association would also ask the committee to, once again, consider a modification in the Charter of the American Battle Monuments Commission to allow service on the commission by enlisted members of the armed forces.

Since it was created in 1923 the American Battle Monuments Commission has amassed an enviable record of achievement among Federal organizations. Organizationally it is responsible for the design, construction, operation and maintenance of American military cemeteries in foreign countries and certain battle monuments in the U.S. and abroad. Through the dedicated efforts of its commissioners and employees this independent agency has maintained the honor and dignity of American participation in military actions to preserve freedom worldwide.

Also since its inception, service on the commission has been limited by law to commissioned officers. Such restriction was not uncharacteristic for the time but it is archaic today. The enlisted servicemember, the noncommissioned and petty officer, bear the brunt of the battle preceding the creation of every memorial.

Appended to this testimony is a copy of a letter from the secretary of the commission concurring in this request. NCOA looks forward to favorable action by the committee on this issue.

Thank you.

STATEMENT OF

DENNIS M. CULLINAN, ASSISTANT DIRECTOR
NATIONAL LEGISLATIVE SERVICE
VETERANS OF FOREIGN WARS OF THE UNITED STATES

BEFORE THE

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
COMMITTEE ON VETERANS' AFFAIRS
UNITED STATES HOUSE OF REPRESENTATIVES

WITH RESPECT TO

LEGISLATIVE PROPOSALS CONTAINED IN THE ADMINISTRATION'S
FY '90 BUDGET

WASHINGTON, D. C. FEBRUARY 9, 1989

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

On behalf of the over 2.9 million members of the Veterans of Foreign Wars of the United States and its Ladies Auxiliary, I wish to thank you for affording us this opportunity to speak here today with respect to proposals contained in the Administration's FY 1990 budget which would affect the veterans Home Loan Guaranty Program. The VFW is honored and eager to take part in a discussion which addresses a program that has been so profoundly beneficial both to this nation's veterans and to the nation as a whole. The Veterans of Foreign Wars is strongly committed to working for the improvement of this program which is so important to all veterans and particularly, at this time, younger Vietnam veterans. We thank and congratulate the Chairman of this Subcommittee and all of its members for exercising essential oversight responsibilities in this regard in such a timely manner, and for allowing us to take part in this very important endeavor.

The Veterans of Foreign Wars recognizes the VA Home Loan Guaranty Program as being a tremendous asset to both veterans and the nation. It has assisted more than 12 million veterans in purchasing homes. Along with lending crucial support to this nation's housing industry, it has increased the tax base of communities across the country by approximately $300 billion. Most importantly, it plays an essential part in fulfilling our national commitment of rewarding veterans for their service by affording them the opportunity to achieve the "American Dream" of home ownership. It is clear to us that a vast number of veterans would not be in their own homes today if it were not for the VA home loan program.

Of major significance is the fact that this is accomplished through the operation of a government program for which no private sector counterpart exists. This is, of course, exactly as it should be--it was not the private sector that called upon our military veterans to undergo grave risks and hardship and to sacrifice irreplaceable years of their lives in the service of the nation; it was the federal government and therefore it is the federal government's responsibility and duty to provide and maintain all veterans programs, including the VA home loan program.

Thus, I must state from the outset that it is our heartfelt conviction that the VA home loan program is first and foremost a veteran's entitlement program. As such, there should be absolutely no expectation that it always operate at a profit. That is simply not in the nature of entitlement programs. Entitlement programs very seldom deliver a profit although, through the majority of its existence, the VA home loan program has managed to serve this nation's veterans while operating in the black.

The first proposal contained in the President's proposed VA budget would increase and make permanent the loan guaranty funding fee, more commonly known as a "user fee," from 1 to 3.8 percent effective October 1, 1989. It is a matter of record of long standing that the Veterans of Foreign Wars strongly opposes any increase in the user fee for a guaranteed home loan. We hold that any such increase would exacerbate what is already a discriminatory tax imposed on veterans and work both to the veteran's and the home loan program's detriment. Increasing the user fee would prevent a significant number of veterans from utilizing the VA loan guaranty program because it would increase the purchase cost. Additionally, in the event of default, the VA home loan program would be harmed because of the larger disparity which would exist between the value of the home and the price of the loan due to an increased user fee. Also of major significance is that veterans should not be forced to pay for a service or a program to which they are entitled by virtue of their service to the nation. Thus, we strongly oppose any attempt to institute a permanent user fee. In fact, as we of the VFW work together with the Congress to maintain the VA home loan program as the most desireable form of home financing for veterans while restoring its financial vitality, it is with an eye toward the eventual elimination of any user fee whatsoever.

Another misguided proposal contained in the President's VA budget is the repeal of the VA's current authority to establish maximum interest rates. In place of this carefully and professionally established standard, a veteran would be expected to negotiate with the lender to establish the mortgage interest rate. We strongly oppose eliminating this authority to establish the maximum VA home loan interest rate. We view the often posited argument that this authority limits a veteran's ability to negotiate a more favorable rate as specious. The VA established rate is, in fact, only a ceiling which certainly does not disallow a veteran and a lending institution from negotiating a lower mortgage rate. The VA established rate not only provides the veteran with greater parity in an unequal market place, it also serves as an national benchmark providing both the mortgage and the building industries with a degree of stability that they would not otherwish enjoy. We are convinced that eliminating the Administrator's authority to establish an interest ceiling would be a serious mistake, working against the veteran's best interest and seriously jeopardizing a most beneficial program.

The next issue which I will address here today is the Administration's so-called credit reform proposal. This scheme first emerged in March of 1987 in Administration proposed legislation, introduced as S. 745, and in the form of amendments to the President's fiscal year 1988 budget. Then as now, it would require estimating and reporting the subsidy costs of new credit activity in agency budget accounts. Under this proposal the VA would be mandated to request annual appropriations equal to the estimated amount of subsidy to be provided to borrowers receiving VA home loan guaranty mortgages and vendee loans during each fiscal year. The President's budget for FY 1990 claims that each borrower receiving a VA guaranteed or vendee loan receives a subsidy equal to 5.2 or 6.6 percent respectively of the principal amount of the loan. Based on this, the Administration estimates that new home loans guaranteed by the VA in FY 1990 will provide borrowers, including the proposed 3.8 percent user fee, a subsidy of $833 million. Significantly, the budget description of this administration proposal to save money must still admit to a resultant loss in revenue in the form of a reduction in offsetting collections because of foregone funding fee revenue ($534.3 million). This arises because the fund would no longer establish vendee direct loans under its account, but rather pay the grant equivalent subsidy to the new treasury account for each vendee direct loan closed. Furthermore, there would also be a loss of $434.4 million from lost loan sale receipts. This loss of loan sale revenue would also be caused by the fund not establishing vendee direct loans. Thus, one immediately apparent result of this credit reform scheme would be the loss of almost $1 billion in revenue from the Loan Guaranty Revolving Fund since it would no longer be allowed to establish vendee direct loans under its own account.

The subsidy appropriations would be to a new budget account—a companion of the VA Home Loan Guaranty Revolving Fund—and would involve budget authority and outlays in the same manner as direct spending programs. When loans guaranteed under the home loan guaranty program were dispersed or property exchanged for vendee loan mortgages, the VA would use these appropriations to pay the estimated subsidy costs of the transactions to a new central revolving fund in the treasury. The Veterans of Foreign Wars adamantly opposes this proposal and views it as a not so thinly veiled attempt to severely restrict the VA home loan program's operation.

Furthermore, one must not lose sight of the fact that the government actually only provides a subsidy to a borrower by incurring an equivalent loss. Along with the general expense inherent to such a program, the major cause of equivalent loss--of losing money--to the program fund is when loans go into default. Thus, this so-called credit reform proposal would call for an appropriation of actual dollars to be set aside to cover an estimated loss which may never be realized, that is, these loans may well not go into default. The VA would be prevented from utilizing precious appropriation dollars (and effectively artificially inflate the apparent size of its appropriation) for the sake of responding to chimerical paper losses. As an illustrative point, we would mention that had this credit reform proposal been in effect during the many years that the VA home loan program operated at a small profit, appropriations still would have been necessary, VA dollars would have been misspent to compensate for a nonexistent federal subsidy when the government was actually making money.

Another obvious flaw in this proposal is that such an appropriation would severely restrict the number of loans the VA could make in a given fiscal year. Given that an actual appropriation would be required to counter potential or paper losses once the loan limit had been reached, the timely enactment of the needed supplemental appropriation would be unlikely. Indeed, in these troubled fiscal times, the likelihood of the Congress approving any supplemental appropriation at all for such a reason is dubious. Thus, untold deserving veterans would be prevented from obtaining a VA loan and the VA loan program itself would suffer because origination fees that would have been paid on new loans would not be realized. The VA loan program would also suffer because its much needed vendee loan activity would be stopped dead in its tracks. The VA would lose profits and the critical rebuilding of the vendee loan portfolio would also be halted. That this would also be highly detrimental to the banking and building industries is evident. Thus, this credit reform scheme harbors disastrous consequences for the veteran, the VA loan program and the nation. This is totally unacceptable.

The next proposal under consideration today addresses current legislation which prohibits the selling of loans after 1989 without recourse unless they can be sold at par value. This administration proposal purports to grant the Secretary more flexibility to sell loans with or without recourse. Although the VFW continues to support the VA's selling some of its vendee loans without recourse, since this minimizes the programs financial exposure, we also recognize that such loans do not command as much money as those sold with recourse and that this can result in the VA home loan program losing money. This is especially true if, as has happened in the past, OMB compels the VA to sell off a large portion of its vendee loans without recourse at a drastically discounted rate in order to realize a large, one shot infusion of deficit reducing revenue.

The VFW has long held that the maintainence and development of a strong and healthy vendee loan portfolio is essential to the long term financial health of the Loan Guaranty Revolving Fund. It bears mentioning at this time that the fund lost about $180 million last year alone through selling vendee loans without recourse below par value. With the administrative and bond insurance costs included in the computation, the VA home loan fund only managed to achieve about 56 cents on the dollar of loan value through this sale of its loan assets. Thus, even though we recognize the advisability of perhaps allowing the fund to sell loans on a nonrecourse basis for, say, 90 cents on the dollar under some circumstances, we still strongly oppose providing OMB, by way of the Administrator of Veterans Affairs, unrestrained authority to sell off nonrecourse vendee loans on a wholesale basis.

The next proposal to be addressed calls for a reduction in loan guaranty staffing of 45 FTEE. The VFW views this proposal as a misguided and cynical attempt to reduce cost through impairing the operation of an invaluable veteran's program at a time when it can least tolerate such an action. In this regard, the VFW is in agreement with the Independent Budget for Veterans' Programs, the formulating body of which we are a member, which states that the increase in defaults was due largely to factors beyond the control of the VA. The fact is, however, that this activity was and continues to be inadequately staffed to efficiently handle the default problem. This has been costly. Many defaults that could have been cured are not; due to inadequate staffing, veterans are not provided with meaningful financial information and counseling. This results in more foreclosed properties the VA must manage and maintain resulting in major increases in both program and administrative costs.

We also believe that, if staffing had been adequate, counseling could have been provided that would have prevented some loans from going into default. We are convinced that the poor level of service now being provided to veterans whose loans are in default is directly caused by shortsighted (and costly) budget formulation that failed to provide resources that would have greatly alleviated, if not cured, the problem.

Thus, the VFW in keeping with the assessment of the loan guaranty program contained in the Independent Budget recommends that staffing be increased by 140 FTEE over the FY 1988 actual staffing level for a total of 2,240 with a FY 1989 supplemental appropriation. We further recommend that the staffing level be maintained at 2,240 in FY 1990. This is in keeping with the recommendation that current services, as supplemented by our recommendation for FY 1989, be at least maintained.

The next issue to be addressed is the change in VA regulations, effective October 1, 1989, that include the cost of government borrowing in the determination of whether to acquire or not acquire foreclosed property. It is estimated that the VA will acquire approximately ten percent fewer properties under this procedure. The VFW has long recommended that the VA exercise greater discretion and care in the acquisition and maintainence of real property so that valuable appropriations dollars could be used in better serving the veteran, rather than paying for avoidable operational costs. Thus, the VFW supports this proposal.

The final administration proposal we will address today is proposed legislation to change the eligibility requirement for the plot allowance to be consistent with the eligibility requirements for basic burial allowance. The $150 plot allowance is payable for a nonservice-connected death of a wartime veteran if he is not buried in a national cemetery or any other cemetery under the jurisdiction of the United States. It is the single veterans benefit that is available for any and all wartime veterans regardless of their age, period or type of service, or any other discriminating factors. On the other hand, in order to be eligible for the burial allowance, the deceased veteran must at the time of death have been entitled to receive pension or compensation or would have been entitled to receive compensation but for the receipt of military retired pay, or death must have occurred in a VA facility or contract nursing home to which the deceased was properly admitted. Thus, the burial allowance is specific to the service-connected disabled veteran whereas the plot allowance is a more generally available benefit intended for wartime veterans. So, the administration's proposal to make eligibility for the plot allowance "consistent" with the eligibility requirement for the basic burial allowance is simply a thinly veiled attempt to once again cut veterans benefits. The $150 plot allowance is a very small sum indeed when compared to the cost of our national defense and the cost of veterans programs and benefits in general. It may be seen as the only veterans' benefit which is common and available for all wartime veterans. Thus, the VFW strongly opposes this attempt to further restrict the payment of the $150 cemetery allowance.

Mr. Chairman, I will now conclude by reiterating the VFW's support of the FY 1990 Independent Budget current services appropriation request for the VA Loan Guaranty Revolving Fund of $1,364,000,000. We view this as being the minimum needed to provide for the maintainence and continued operation of the program. You may be assured that the entire membership of the VFW stands ready, willing, able and eager to assist you in protecting and serving this nation's veterans through the operation of the home loan program.

Germain VFW Resolutions are appended to this statement for your review and consideration.

I sincerely thank you and the other members of this Subcommittee for including the Veterans of Foreign Wars in today's essential review of administration proposals which address the highly successful and beneficial VA home loan program. I will be happy to respond to any questions you may have.

STATEMENT OF
JOHN C. BOLLINGER, ASSOCIATE LEGISLATIVE DIRECTOR
PARALYZED VETERANS OF AMERICA
BEFORE THE
SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
OF THE
HOUSE COMMITTEE ON VETERANS' AFFAIRS
CONCERNING
THE FISCAL YEAR 1990 BUDGET PROPOSALS
CONTAINED IN THE REAGAN ADMINISTRATION'S FY 1990 BUDGET
FOR VA HOUSING AND MEMORIAL AFFAIRS
FEBRUARY 9, 1989

Mr. Chairman and Members of the Subcommittee, it is a pleasure for me to be here this afternoon to present the views and concerns of Paralyzed Veterans of America (PVA) concerning the Reagan Administration's FY 1990 budget proposals for the VA housing program and memorial affairs. We appreciate the opportunity to testify, and we thank you for conducting this important hearing so early in the Session.

Prior to our discussion of these issues, I wish to express, on behalf of all our members, our congratulations to you, Chairman Staggers, in your new leadership position on this Subcommittee. We look forward to working with you and your staff to continue the progress that has been made by this Subcommittee in addressing the problems facing the VA Home Loan Program. As a former Member of the Subcommittee on Hospitals and Health Care, you have shown extraordinary concern for our nation's veterans. PVA is appreciative of your efforts, and we are optimistic that under your leadership this Subcommittee will continue to go forward in ensuring the opportunity of home ownership for all eligible veterans and active duty personnel.

PVA also wishes to congratulate the newly elected Members of Congress here today. As Members on this Subcommittee, you will have significant influence over the direction this vital program takes. You have arrived at a time when many individual components of the Veterans Administration are literally in a state of crisis. Unfortunately, the VA's home loan program is no exception.

Since its inception in 1944, the VA Home Loan Guaranty Program has underwritten nearly 13 million loans and provided credit totalling over $300 billion. For forty years, the program was self-supporting and did not require any federal appropriation other than the original start-up seed money. With the economic downturns of the energy and oil industries in 1984, foreclosure levels have risen dramatically and the solvency of the program has been severely jeopardized. Last year the VA needed approximately $1 billion in appropriated funds tc keep the program afloat.

The state of emergency in which we currently find the program is now being compounded by a budget that is sorely lacking in both fiscal and managerial substance. As a result of our assessment of both the General Operating Expenses (GOE) and programmatic problems that face the VA Home Loan Program, we believe the Administration's budget proposal contains many inadequacies that should be rejected.

Mr. Chairman, you have asked us today to comment on seven of these proposals that come under the jurisdiction of this Subcommittee. We are pleased to offer the following comments.

Increased Funding Fees

The Administration has, once again, proposed legislation which would increase the VA Home Loan Guaranty Program funding fee. Since the enactment of the one per cent fee in 1984, we have consistently opposed efforts by the Administration to reduce budget authority at the expense of this entitlement program and veteran home buyers. Congress, too, has rejected such proposals in the past. As the expiration date of existing legislation approaches in September, this provision would make permanent and would increase the one per cent fee to 3.8 per cent for all nonservice-connected veterans.

The National Home Builders recently estimated that in 1988, the cost of an average new house had escalated to $127,101. In this case, the potential veteran homebuyer would have to pay $4,830 in VA funding fees -- a fee for which he or she arguably gets nothing in return.

Mr. Chairman, one of the principal benefits of the existing VA Home Loan Program is that it enables a veteran or active duty person to purchase a home without depleting his or her life's savings in the form of fees and down payments. If the Administration's proposal to enact a 3.8% funding fee is implemented, the original intent of Congress will be seriously eroded.

We further believe that an increase in the funding fee would have a detrimental effect on the ability of veterans to obtain guaranteed loans, and thereby discourage veterans' participation in the program. This program has been a sound investment in America, providing stability and expanding the tax base of nearly every community in our country. Any effort on the part of the Administration, which results in the weakening of this historically successful government program, would represent a great disservice to our nation. We strongly oppose this initiative.

Maximum Interest Rates

The former Administration has resubmitted a legislative proposal which would repeal the VA's current authority to establish maximum interest rates at which lenders can make guaranteed loans. This legislation would allow that loans guaranteed or insured under Chapter 37 of title 38 U.S.C. be payable on such terms and conditions as may be agreed upon by the veteran and the lender. These negotiated rates would bear such interest for the lifetime of the loan.

We believe this proposal would have several adverse effects on the VA Home Loan Program and the veterans utilizing it. First, there is little doubt that veterans would pay higher interest rates under this initiative. These rates would translate into higher mortgage payments and result in the erosion of the veteran's purchasing power. Fewer veterans would be able to afford housing and, ultimately, the Loan Guaranty Revolving Fund would suffer.

Secondly, we are concerned that if the Administration's proposal of negotiated interest rates were implemented, the "no down payment" feature of the VA Home Loan Guaranty Program would be jeopardized. As veterans are forced to negotiate and secure affordable interest rates, lending institutions will ultimately bring pressure to alter the "no down payment" feature and require potentially sizable down payments.

The Washington Post recently estimated that the average new homebuyer must save 20 per cent of his annual income for a period of seven years in order to have enough money for a down payment on a home. We are certain that the intent of Congress would not be served by including veterans and members of the U.S. Armed Forces in this group of potential homebuyers. The principal objective of the program is to "encourage and facilitate extension of favorable credit terms by private lenders to veterans." Any attempt to alter this most advantageous feature of the program would, once again, remove the incentive for veterans to participate and severely jeopardize the principal objective of the program as stated by the VA.

Finally, the former Administration's proposal to repeal maximum interest rates would substantially increase VA claim costs which, in turn, would adversely affect the Revolving Fund. Claim costs would increase due to the higher interest rates which would prevail under such an initiative. PVA has historically opposed this proposal, and we continue to do so.

Credit Subsidy Legislation

This proposal would require the VA to make subsidy payments to a U.S. Treasury fund prior to guaranteeing any home loan. Based on the projected cost to the VA should a loan go into default, the subsidy required would be paid into the fund "up front."

PVA opposes this initiative for several reasons. If credit subsidy legislation is enacted, it is quite likely that the VA would lose substantial control of a program that is rightfully within the complete jurisdiction of the VA Home Loan Guaranty Program. In order to maintain the integrity of the VA's guaranteed loans, we strongly oppose any effort to diminish the VA's role in their own program by placing the control financing mechanism, side by side, with all other new federal loans under the jurisdiction of the Treasury.

The Reagan Administration has stated in the past that the subsidy amounts will serve as ceilings on the volume of new credit that may be offered by the account. We are very concerned that once the ceiling has been reached (a ceiling based on VA projections), no more loans could be guaranteed without further appropriations. The traditional source of funding may not continue to be available to finance the program. We firmly believe that any attempt to limit the number of loans which the VA can guaranty should be rejected.

Finally, we question the fiscal soundness of the proposal. The legislation requires, in FY 1990, that a subsidy appropriation of $833 million be deposited in a Treasury account despite the fact that VA guaranteed loans do not cost the government any money unless they actually go into foreclosure. As regional problems affecting the Loan Guaranty Revolving Fund are addressed by Congress and the number of foreclosures begin to decrease, it is questionable whether this credit subsidy, in a time when we are trying to reduce the federal deficit, represents money wisely invested.

Loan Asset Sales

Current law prohibits the selling of loans after October 1, 1989, without recourse, unless they can be sold at par. The sale of vendee loans without recourse will result in reduced sales prices paid to the government. The government's return will be maximized, however, if vendee loans are sold with recourse. By allowing the sale of the loan portfolio without recourse, but only if 90 per cent or better is received, the VA will have a sufficient degree of flexibility without being permitted to sell at outrageously low prices.

Reduction In Loan Guaranty FTEE

PVA is deeply concerned that the former Administration's FY 1990 budget calls for 45 fewer loan guaranty personnel. In addition to the demoralizing effects on over-worked employees, further cuts in FTEE will take a heavy toll on the program. At a time when Loan Guaranty is experiencing critical shortages of experienced staff to handle both record numbers of new guarantees and significant regional foreclosure problems, additional staff reductions will have a crippling effect on the ability of the program to even minimally carry out its mission.

Every effort should be made by VA staff to provide adequate counseling to avoid foreclosure on veterans' homes. Inadequate staffing levels prevent the VA from providing such assistance to individuals whose loans are heading toward default. This short-sighted budget formulation has resulted in an unnecessarily large number of foreclosures at great cost to the government.

Further staffing reductions will also result in the VA's inability to promptly process bids on VA-held foreclosed properties. This will inevitably result in the loss of potential sales to willing buyers. Such properties will then continue to be held by the VA at significant cost.

PVA strongly urges this Subcommittee to reject further cuts in VA Home Loan Guaranty FTEE and restore funding to the General Operating Expenses for these desperately needed personnel. We believe that an FY 1989 supplemental appropriation to provide 140 additional FTEE's over the 1988 level is justifiably in order. We encourage your support for such an appropriation in order that the VA will have sufficient resources to address the numerous problems that currently besiege the program.

Including the Cost of Government Borrowing When Determining Whether or Not to Acquire Foreclosed Property

On the surface, this proposal appears to represent sound reasoning. We are concerned, however, that such an initiative would result in lenders becoming more hesitant to offer VA guaranteed loans. Including the cost of government borrowing in the determination of whether to acquire or not to acquire foreclosed property will certainly result in fewer properties being acquired by the VA. FHA and conventional loans will then represent more attractive investments for lending institutions. This represents yet another

Administration initiative that would decrease participation in the program and ultimately lead to the program's demise.

Cemetery Allowance

Since the former Administration's proposal in 1982, to change eligibility requirements for the basic burial allowance, PVA has continuously opposed further efforts to restrict the $150 cemetery (plot) allowance. This small sum represents our country's last farewell to these individuals who served in uniform. Restricting this benefit to limited categories of veterans represents an insensitive and uncaring approach to deficit reduction. PVA encourages this Subcommittee to, once again, reject this initiative.

In conclusion, I wish to reiterate our support for H.R. 5221 which was introduced in the 100th Congress. We believe the bill represents a good investment in the well-being of the VA's Home Loan Program, and we are pleased to support it in its entirety.

Mr. Chairman, that concludes my testimony. I will be happy to answer any questions that you might have.

Statement of

The American Legion

1608 K STREET, N. W.
WASHINGTON, D. C. 20006

by

STEVE A. ROBERTSON, ASSISTANT DIRECTOR
NATIONAL LEGISLATIVE COMMISSION
THE AMERICAN LEGION

and

JAMES B. HUBBARD, DIRECTOR
NATIONAL ECONOMIC COMMISSION
THE AMERICAN LEGION

before the

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
VETERANS AFFAIRS COMMITTEE
U.S. HOUSE OF REPRESENTATIVES

on

FISCAL YEAR 1990 BUDGET PROPOSALS
VETERANS HOME LOAN PROGRAM

FEBRUARY 9, 1989

STATEMENT OF
JAMES B. HUBBARD
DIRECTOR, NATIONAL ECONOMIC COMMISSION
THE AMERICAN LEGION

before

THE SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS
COMMITTEE ON VETERANS AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

February 9, 1989

Thank you Mr. Chairman for the opportunity to present our views on the FY 1990 budget proposals under this subcommittee's jurisdiction. The VA Home Loan Guaranty program has served almost thirteen million veterans since its enactment. While the solvency of the program is perhaps our most challenging problem, we look forward to working with this subcommittee towards a solution which is both equitable and fair to veterans and taxpayers.

We appreciate the Administration's concern for the increasing costs of the Loan Guarantee Revolving Fund; however, we are not convinced that the measures outlined in their legislative initiatives are the best means for solving the problem.

The Administration suggests increasing and making permanent the loan guarantee funding fee from 1% to 3.8%. The VA loan guarantee program was always intended to be a benefit to eligible veterans. The American Legion continues to view the funding fee as an unfair tax on a program intended to be a benefit. To now suggest that this funding fee should be almost quadrupled is certainly not in the best interest of veterans. Possibly the fee increase may drive veterans away from the home loan guaranty program. We do not feel this is the intent of the Administration, Congress, or this subcommittee.

Near the end of the 100th Congress, this very subcommittee introduced a bill which passed the House by a large majority which addressed the problem of insolvency while providing some indemnity to veterans.. We supported that bill and hope a similar bill will be introduced in the 101st Congress.

The Administration also seeks a change in the law to repeal VA authority to establish maximum rates and allow the borrower to negotiate a rate with a lender on a guaranteed loan. Traditionally, the interest rate on any loan over and above a reasonable return on investment is a reflection of the degree of risk assumed by the lender. Thus, the greater the risk, the higher the interest rate. Lenders normally will not negotiate interest rates that are very much lower than the current market rate. We do not feel the elimination of maximum interest rates established by the VA will have a positive impact on the program.

The Administration recommends credit reform requiring subsidy payments to the Treasury in an appropriated amount of $833 million. The American Legion continues to oppose this measure. The Administration has calculated the dollar amount of the benefit and is asking that the money be transferred to the Treasury. Presumably this "fund" will replace the Loan Guaranty Revolving Fund and all similar funds as the source of revenue to settle claims, manage property, and acquire homes.

This proposal, however, raises several questions. What authority would the Treasury have over program policy under this proposal? It is possible that the Treasury could end up dictating policy to the VA, which is an unacceptable situation in our view. We believe this initiative is an effort by the Office of Management and Budget to eliminate all federal credit programs by those who believe that the government does not belong in the credit markets. At the very most, this idea can only be viewed as a very expensive form of mortgage insurance.

Additionally, OMB has never provided any type of guidance to the agencies required to include this type of funding in their budgets as to how the program would operate. In the case of the VA, a huge sum of money will be deposited with the Treasury to finance foreclosures which will probably not be seen for several years. This proposal makes no fiscal sense.

Mr. Chairman, as you are aware, current legislation prohibits the selling of loans after 1989 without recourse, unless they can be sold at par. We foresee this measure restricting the flexibility of the Secretary to reduce the loan portfolio and effectively recapture funds. We would encourage legislation to allow the selling of loans without recourse with a reasonable, below par percentage limitation.

Mr. Chairman, at a time when the Home Loan Guarantee Program is showing claims in the amount of 50,000 per year, and foreclosures on property up to 25,000 per year, it hardly makes sense to arbitrarily cut the staff of the agency handling these claims by forty-five FTEE simply to "save" money. It is very likely that no money will be saved and, in fact, the backlog of cases will grow even larger. It seems to us that more people, not fewer, should be put to work to counsel veterans in an attempt to rescue them from foreclosure. A loan counsellor who prevents only two loans threatened by foreclosure, saves the program enough money to pay for the position he or she occupies. Reductions in force make no sense in this instance.

The Department also proposes to change the regulations governing the acquisition of property on defaulted loans to provide for the inclusion of the cost of government borrowing in the calculations. As we understand the current process, the holder of the defaulted loan has the option to convey the property to the VA only if the "net value" of the property exceeds the total indebtedness minus the amount of the guarantee, or if a larger bid was made for the property as a minimum amount permitted under state law. Net value was defined as the fair market value minus the cost of acquiring and disposing of the property including taxes, maintenance and resale expenses. Adding the cost of government funds to this calculation only lowers the net value of the property, making the veteran liable for payment of additional monies should the VA not be able to sell the property at a price above what the veteran owes on the loan. This is not acceptable to The American Legion. In most cases when a veteran loses his home, he loses everything; it is extremely unlikely that the VA will ever be able to collect.

Mr. Chairman, we must remember that every loan issued by this program has a ripple effect on the community including local housing industries, real estate industries, builders, and lenders. The community itself benefits through an increase in the local tax base. This program has had a positive impact on the economy of this country and should be continued with improvements designed to restore the solvency of the program.

Mr. Chairman, we would now like to address the cemetery allowance issue. The cost of burial plots has increased consistently during recent years. However, the financial resources of many veterans have not kept pace with these rising costs. Congress must also consider many veterans do not have ready accessibility to national cemeteries and transportation costs would be an added burden to those on fixed or limited incomes. The American Legion supports an increase in the current $150 plot allowance to $250 to offset these rising costs and to afford a qualified veteran the dignity of a proper burial.

In conclusion, Mr. Chairman, The American Legion is proud to inform this subcommittee of a major accomplishment by our organization and the VA made possible by P.L. 100-198, the Veterans Home Loan Program Improvements and Property Rehabilitation Act of 1987. A provision of this law addresses the homeless program by allowing the VA to sell VA-acquired foreclosed properties for use as shelters, primarily for homeless veterans and their families, to any organizations named in or approved under section 3402 of title 38 as recognized by the Administrator, or any other government, public, or nonprofit organization or entity working on behalf of homeless individuals.

Legionnaires in Pittsburgh formed the Pennsylvania American Legion Housing for Homeless Veterans Corporation and purchased a four-unit home. The facility is operated by the Highland VA Medical Center and provides a home for veterans who have no place to live after discharge from the medical center. Legionnaires in the state raised $20,000 for the purchase of the repossessed property, agreed to appropriate an additional $5,000 for renovation, and donated furniture and building materials for completion of the project. The ten current residents at the home pay a small fee that is used for the maintenance of the facility.

We are very proud of this effort by the Pennsylvania American Legion and the Highland VA Medical Center and hope this will be the first of many more such ventures nationwide. With this positive note, this concludes our statement.

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STATEMENT OF

STEPHEN L. MORGAN

EXECUTIVE VICE PRESIDENT

AMERICAN CEMETERY ASSOCIATION

BEFORE THE

SUBCOMMITTEE ON HOUSING AND MEMORIAL AFFAIRS

COMMITTEE ON VETERANS AFFAIRS

U.S. HOUSE OF REPRESENTATIVES

WITH RESPECT TO

U.S. VETERANS ADMINISTRATION PROPOSED BUDGET

FOR FISCAL YEAR 1990

FEBRUARY 9, 1989

Chairman Staggers and Members of the Subcommittee:

The American Cemetery Association (ACA) appreciates this opportunity to present its views and we request that this statement be made part of the hearing record.

The ACA is a national trade association which represents approximately 2,100 members including municipal, religious and private cemeteries. We respectfully submit our views on the proposal contained in the Veterans Administration proposed budget for fiscal year 1990 which seeks to substantially restrict the eligibility of veterans in obtaining the $150 plot allowance benefit.

As we have testified on past occasions, when the National Cemetery System was transferred to the VA in 1973, Congress recognized that these cemeteries did not exist in a vacuum but were meant to work in conjunction with cemeteries already existing in the private, municipal and religious sectors. By creating alternate forms of burial benefits, such as the burial and plot allowances, Congress sought to encourage veterans to use these resources as their own preferences indicated. These burial benefits also served to relieve the burial caseload in the national cemeteries.

This dual strategy has worked very efficiently for many years now as the VA statistics indicate: Eighty-five percent of all VA burial benefits are provided through the one-time payment of the plot allowance with the remaining 15 percent provided through interment in the national cemeteries. Thus, as the most cost-effective of all burial benefits, the plot allowance is also the most popular. Eligibility requirements for the plot allowance were restricted in 1981 and subsequently resulted in an upsurge in the numbers of interments in national cemeteries during the following years.

In stark contrast to the sole $150 payment of the plot allowance, interment in a national cemetery entails a continuing financial obligation on the part of the federal government to maintain each gravesite forever, as well as the cemetery as a whole. Moreover, it is important to understand that as a particular cemetery ages and more interments are made the more costly it becomes to maintain a given cemetery. Clearly, any savings to be derived from a curtailment of the plot allowance eligibility now under consideration would be strictly for the short-term and would be more than offset by a corresponding increase in more costly national cemetery interments and related maintenance.

The proposed fy 1990 VA budget states that a savings of $36.5 million in 1990 is anticipated through further restrictions in the plot allowance eligibility. The proposal is silent, however, regarding the accelerated reliance on the national cemeteries that such a restriction will generate. Likewise, the proposal does not anticipate any increase in expenditures caused by this unplanned acceleration which we believe will far exceed any hoped-for savings of $36.5 million a year. Finally, this proposal would disqualify over 70 percent of the veterans now eligible for the plot allowance.

The ACA notes that both the House and Senate Committees on Veterans Affairs have consistently rejected this proposal in the past. We urge the Subcommittee to recommend, again, that the proposal for restricting plot allowance eligibility be rejected as fiscally unsound and blatantly unfair to the overwhelming majority of veterans who earned this benefit. Also, we continue to urge your Subcommittee to conduct a comprehensive examination of the National Cemetery System and related burial benefits before any substantial policy changes are made with respect to these important matters. Thank you.

Office of the Secretary
of Veterans Affairs

Washington DC 20420

Department of
Veterans Affairs

MAR 30 1989

Honorable G. V. (Sonny) Montgomery
Chairman, Committee on Veterans Affairs
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Enclosed are the responses to the questions from the Subcommittee on Housing and Memorial Affairs hearing held on February 9, 1989. The responses are to questions you submitted in your letter, dated February 24, 1989, to Mr. R.J. Vogel on behalf of Honorable Harley O. Staggers, Jr. and Honorable Dan Burton.

Please let me know if we can be of further assistance.

Sincerely yours,

Edward J. Derwinski

Edward J. Derwinski
Secretary

Enclosures

HONORABLE HARLEY O. STAGGERS, Jr.

Question: 1. Since you estimated that a 3.8% user fee would generate $534.3 million in additional revenues and would be used for the operation of the VA Home Loan Guaranty Program, how will you fund its operation with this potential loss in revenue?

Answer: Under 1990 proposed legislation for the Reagan budget the loss of the 3.8% fee would increase the appropriation requirements of the Fund the full $534.3 million. This is because the authority for collecting the fee will expire at the end of FY 1989.

Question: 2. How much is the average salary for FTEE? How much is your average claim payment? How much money did you pay out last year in relation to foreclosures? How many loans therefore would someone have to cure to pay for their salary and start saving the government money?

Answer: Based upon data contained in the 1990 President's Budget, it is estimated that one FTEE would need to cure two loans each year to pay for itself before savings can be achieved.

	1988	1989	1990
Average FTEE Payroll	$ 28,685	$ 30,017	$ 30,551
Average Claim Payment	$ 13,383	$ 15,816	$ 17,636
Total Claims Processed($ in 000)	$711,005	$770,697	$809,621

However, we have no data to suggest that additional FTE will necessarily increase cure ratios. The completion of the Houston servicing pilot should help to determine if such a relationship exists.

Question: 3. In lieu of the Congressional mandate to increase servicing, how do you propose to do this with 45 less people?

Answer: The FY 1990 budget requests 2033 FTEE for the Loan Guaranty Program. This represents a 2.2 percent decrease from the estimated FY 1989 employment level. This slight reduction reflects projected reductions in major workloads including GI loan foreclosures. Claims processed on guaranteed loans are estimated to decline by 6 percent. However, our plan is to continue strong emphasis on supplemental servicing of defaulted loans. We do not expect a reduction of resources in this functional area.

Question: 4. The President's budget recommends repealing your authority to set the maximum interest rate at which lenders can make guaranteed loans. Today a lender has the ability to offer a veteran a lower interest rate loan yet this is seldom the case. Don't you think that by taking this authority away you will make the situation worse than it presently is?

Answer: Although VA makes every effort to reflect the loan market in setting interest rates on guaranteed home loans, it is not always possible for such rates to keep exact pace with money market demands. When the cost of money is not adequately reflected by the VA interest rate, lenders are required to charge points to bring their yield into line with the secondary market demand. The points must be paid in cash at closing and veterans are not permitted, except under certain limited circumstances, e.g., refinancing and home improvement loans, to pay the points. If the veteran paid the points he or she would, in effect, be paying an interest rate above the permitted maximum. Therefore, in most cases the seller pays the points on VA guaranteed loans.

Sellers who are reluctant to pay points often either refuse to sell with VA financing, or increase the selling price of their homes to reflect the anticipated points. In neither instance is the veteran being benefited. Without a VA set interest rate the veteran buyer, the seller, and the lender can negotiate on whether the rate, and thus the monthly payment, will be lowered in exchange for a certain number of points and who will pay such points. Use of a negotiated rate will also encourage sellers to sell with VA financing and charge veterans the same price as nonveterans for the home. The transaction can be tailored to fit the needs and circumstances of the parties involved and allow the veteran greater flexibility in obtaining the best financing option.

Question: 5. Your workload reports indicate that loan servicing in many stations today is considerably backlogged. How do you expect to cope with this with a reduction of 45 people?

Answer: As stated in our response to question 3 we expect a decline in workloads in FY 1990. We project 6 percent fewer claims and a 17 percent decrease in property acquisitions. In addition, Construction and Valuation and Loan Processing workloads are projected to remain stable. The 45 FTEE reduction can be absorbed without detriment to loan servicing or other vital program functions.

Question: 6. In connection with the future needs of the system, Congress directed VA to conduct environmental impact statements in four priority locations, which your testimony indicates are underway. Is the VA not requesting the necessary funding to proceed with design and construction of those facilities?

Answer: That is correct. The 1990 budget does not request any funding for the design or construction of new cemeteries in Chicago, Albany, Cleveland, and Seattle.

In June 1987, a study of the National Cemetery System was submitted to Congress in accordance with Public Law 99-576. The study presented the current policy of expansion based upon the regional concept and made five recommendations for meeting veterans' future burial needs: (1) encourage expanded participation in the State Veterans' Cemetery Grants program, (2) phased development of presently undeveloped land in open national cemeteries, (3) expansion of the garden niche concept, (4) limited expansion of existing national cemeteries through acquisition of adjacent land, and (5) review policy for future expansion of the National Cemetery System.

In accordance with the fifth recommendation, a review of current policy was completed and discussed within the administration. It was decided that the regional concept would remain the policy of the National Cemetery System. The budget request reflects this decision. Construction funding is requested for gravesite development at existing cemeteries, and funding is requested to support grants for State Veterans' Cemeteries; however, no funding is requested for the construction of new national cemeteries. The opening of Fort Mitchell in Alabama completed expansion under the regional concept.

Question: 7. Last year Congress authorized use of graveliners in VA National Cemeteries. Your testimony indicates that some progress is being made in implementing this authorization. Will there be long term savings as a result? Will those savings be reflected in future budgets?

Answer: By preventing grave sinkage, the use of graveliners not only produces long-term savings as a result of reduced maintenance requirements, but also improves cemetery appearance. The purchase of graveliners is a capital investment and, as with other capital investments, will increase productivity. Productivity improvements will continue to be reflected in future budget requests.

Question: 8. The Mortgage Bankers statement indicates that the provisions of Public Law 100-198 which was signed by the President on December 21, 1987, will not be effective until October 1, 1989 -- nearly two years after enactment. Is this true?

Answer: Most of the provisions of Public Law 100-198 have been implemented. However, there are three major provisions of the law that required implementing regulations. They are the new assumption requirements, the authority of lenders to process appraisals and the exclusion from the "no-bid" formula the interest that accrues when VA requests lender forbearance, or other instances of delay. An initial effort was made to implement these provisions by circular with subsequent publication as regulations; however, the Office of General Counsel provided the opinion that circulars would not be adequate and regulations must be published prior to implementation.

Before the required regulations could even be drafted a great deal of staff time was spent with program participants and others in discussing the best way to implement the provisions. The highest priority was given to the regulations on the determination of loan guaranty claims using the "no-bid" formula. Public Law 100-198 prescribes certain dates for use when computing the loan indebtedness in connection with the determination of net value and payment of a claim under the guaranty. The expected result in the law is a slight decrease in the number of "no-bid" cases. We expect the Office of Management and Budget to provide formal clearance of this regulation in the near future.

The regulations necessary to implement the appraisal provisions of Public Law 100-198 have all the necessary VA concurrences and are being readied for the Secretary's signature, we expect them to be submitted to OMB in the near future. These regulations will delegate to certain lenders the authority to review appraisals and determine the reasonable value of properties securing VA guaranteed loans. The regulations will also require, as prescribed by Public Law 100-198, a procedure for monitoring lenders operating under the new program. The main reason for this provision of Public-Law 100-198 was to improve the timeliness of the processing of appraisals. Until the regulations are published the VA will continue to review appraisals and determine reasonable value. The processing of appraisals by VA is currently very timely with approximately 96 percent processed within 20 days of request.

Since the quality of appraisals has been raised by many, both within and outside the Government, the regulations have been very carefully drafted. We do not believe there has been an adverse impact by our careful processing of the regulations and standards for this major program change.

The regulations implementing restrictions on assumed loans are with the Secretary for signature and also expected to be submitted to OMB in the very near future. We also do not believe that the lack of publication has had an adverse impact since the law applied only to loans committed to on or after March 1, 1988, which are subsequently assumed. We believe it is highly likely that only a very small number of loans committed to on or after March 1, 1988 are currently being assumed or will be in the near future. In the meantime the credit underwriting required by the law, which upon publication of regulations can be delegated to certain lenders, is being performed by our regional offices. No loan which falls under the requirements of Public Law 100-198 will be assumed without meeting the requirements of that law.

Question: 9. The Homebuilders suggest that direct approval of appraisals by the VA should apply for new construction as well as existing homes. Do you have a position on this?

Answer: The matter of proposed construction cases has been considered in the formulation of the policies and procedures implementing the delegation of authority to automatic lenders to review appraisal reports and determine the reasonable value of properties for VA guaranteed loan purposes.

The regulations as drafted will apply to both Proposed and existing construction status categories. However, initially the nationwide program will mainly include only existing construction. New construction which qualifies for VA appraisal purposes as existing construction is included in the initial implementation plan.

Lender review of appraisals in proposed construction cases will be implemented at selected regional office locations. The notice of proposed rule making which will be published in the Federal Register will solicit comments on that and other matters.

The principal benefit to the veteran in the lender review of appraisal reports is the savings of time to loan closing. The review of proposed construction appraisals, and the related proposed construction exhibits by VA staff is not perceived, by us, to create a timeliness problem. Since group or project appraisal requests are usually made before work begins or at the early stages of sales activities, the Certificate of Reasonable Value is typically issued well in advance of the beginning of the mortgage credit review process.

Question: 10. The American Legion states that with Credit Reform establishing an account at Treasury it is possible that Treasury could end up dictating program policy to the VA. Does this concern you?

Answer: We do not anticipate any problems in coordination with Treasury under Credit Reform. The Treasury will be responsible for the new revolving fund and related accounting functions. The Department of Veterans Affairs has sole responsibility for operating the guaranteed loan program. The Credit Reform proposal makes no changes regarding how the guaranteed loan program is administered by the Department.

Question: 11. NCOA states that life insurance reserves should be invested in mortgage bonds. Do you have a position on this?

Answer: While we as yet have no official position on the merits of the NCOA's legislative proposal, there are several issues which the proposal raises with regard to the use of the insurance trust fund reserves including the following:

1. the financial impact on Treasury's debt management

2. the impact on the liquidity of the insurance trust funds

3. the risk (in terms of the return on the investments) associated with the proposal

4. the impact on the contractual obligations of the insurance program

Our understanding of the proposal is that it calls for the transfer of $3 billion from the Insurance trust funds to the LGRF. The assumption appears to be that these funds could be used by veterans for the purchase of homes, or to guaranty the payment of mortgages. In fact, the trust funds are invested in Treasury securities for 15 year terms and in such a manner that approximately one-fifteenth of them mature each year. If $3 billion of the current portfolio were redeemed for this purpose Treasury would be required to replace these securities by issuing new debt instruments Therefore, if Treasury is required in any event to borrow the money to fund this proposal, there is no particular reason that it has to involve the Insurance trust funds.

The liquidity of the trust fund investments is also an issue because the National Service Life Insurance (NSLI) program has now reached a stage of advancing maturity. The average age of the NSLI insured is 65.5 years. As mortality rates increase, anticipated outlays in the next 15 years in death claims alone will total $11.6 billion. At this stage in the NSLI program, it is especially important that the investment portfolio is segmented so that the cash flow needs of the program will be met. Investments in long term mortgages does not appear to be consistent with the cash flow needs of the program at this point.

The safety (interest rate risk) of the trust fund investments must also be considered. Because of the contractual obligations undertaken by the government with regard to these policies, the safety of the investments must be absolute. The safety and liquidity afforded by investments in U.S. securities as now required is much greater than the increased risk and long-term nature of the proposed mortgage financing.

The contractual nature of the insurance also raises another potential concern. Title 38, United States Code, section 720(b) authorizes the Administrator to set aside monies necessary to meet projected program liabilities. It further authorizes the Secretary of the Treasury to invest these monies in "...interest-bearing obligations of the United States or in obligations guaranteed as to principal and interest by the United States...."

The VA's Loan Guaranty Revolving Fund (LGRF) is not an investment vehicle, such as a Government National Mortgage Association (GNMA) pool or as a mortgage-backed security (as is created when the VA sells vendee loans without recourse). As the use of the term "investment" in the NCOA's proposal is unclear, it is difficult to provide meaningful comments on this aspect of the proposal. There can be no assurance that any principal "invested" in the LGRF would be returned to the insurance fund, or that any interest or other return on investment would be generated for the benefit of insurance beneficiaries. Unless such a return of principal and interest is guaranteed by the Government, this could be construed as violating contractual rights thereby constituting a violation of the just compensation clause of the fifth amendment of the U.S. Constitution.

Question: 12. What is the average turn around on an appraisal? Are there particular areas in the country which exceed this timeliness requirement? If so, what is the VA doing to solicit additional appraisers in these areas?

Answer: The timeliness standard that is established as the nationwide target in the issuance of Certificates of Reasonable Value (CRV's) is for 90% to be issued in 20 days from the date of the appraisal request. The 20 day count includes all processing of a case, including turnaround of the appraisal by the fee appraiser and internal processing by VA staff. For the first quarter of FY 1989, on a nationwide basis, our offices exceeded the established timeliness standard, as 95.8% of the CRV's were issued within 20 days. For FY 1988, 94.7% of the existing CRV's nationwide were issued within the 20 day standard.

Of our 49 regional offices, five did not meet the CRV timeliness standard during the first quarter. Those stations were Anchorage, Cleveland, Huntington, Indianapolis and San Francisco. The problems experienced by these five stations are considered temporary in nature and are not attributable to a shortage of fee appraisers in their jurisdictional area.

HONORABLE DAN BURTON

Question: 1. Testimony today indicates that curtailment of the plot allowance will increase interments in national cemeteries and increase future costs. Do you agree or disagree with this assessment?

Answer: Curtailment of the plot allowance could have a marginal impact on the National Cemetery System; however, the decision to be buried in a national cemetery is not based primarily on reducing burial costs. The decision is based on the distance from a national cemetery, whether a spouse is buried in the national cemetery, and intangibles such as patriotism, pride in service to the country, recognition, and being buried with comrades.

Question: 2. You mention "buy downs" in discussing your proposal to have negotiations on interest rates on GI loans. What is the frequency of such "buy downs"?

Answer: Of the 182,430 primary loans (not refinancing) guaranteed in 1988, 1,709 of them were "buy downs". In 1987 3,121 "buy down" loans were guaranteed. The total primary loans guaranteed in 1987 was 275,427.